

United States Air Force Agency Financial Report 2014



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THE AIRMAN'S CREED

I AM AN AMERICAN AIRMAN.
I AM A WARRIOR.
I HAVE ANSWERED MY NATION'S CALL.

I AM AN AMERICAN AIRMAN.
MY MISSION IS TO FLY, FIGHT, AND WIN.
I AM FAITHFUL TO A PROUD HERITAGE,
A TRADITION OF HONOR,
AND A LEGACY OF VALOR.

I AM AN AMERICAN AIRMAN,
GUARDIAN OF FREEDOM AND JUSTICE,
MY NATION'S SWORD AND SHIELD,
ITS SENTRY AND AVENGER.
I DEFEND MY COUNTRY WITH MY LIFE.

I AM AN AMERICAN AIRMAN:
WINGMAN, LEADER, WARRIOR,
I WILL NEVER LEAVE AN AIRMAN BEHIND,
I WILL NEVER FALTER.

AND I WILL NOT FAIL.

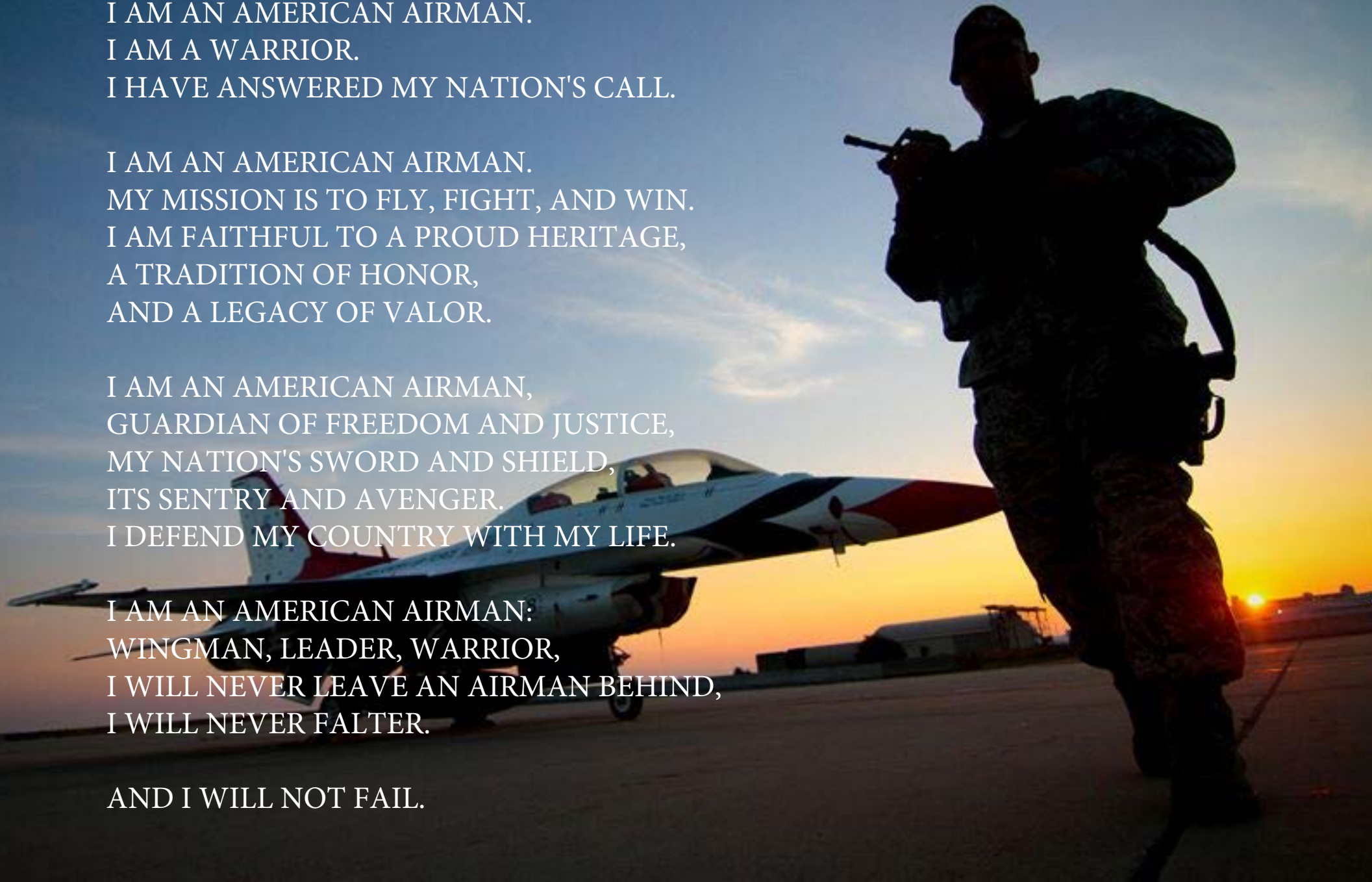


Table of Contents

| | |
|---|----------|
| Message from the Secretary of the Air Force | 1 |
| Message from the Assistant Secretary of the Air Force for Financial Management and Comptroller | 2 |
| Management Discussion and Analysis | |
| Air Force Heritage | 4 |
| Air Force in Action—FY 2014 | 6 |
| Air Force Structure | 7 |
| Air Force Resources | 12 |
| Management Assertions | 13 |
| Analysis of Financial Statements | |
| General Fund | 16 |
| Working Capital Fund | 19 |
| Financial Statements | |
| General Fund | |
| Principal Statements | 24 |
| Notes to the Principal Statements | 34 |
| Required Supplementary Stewardship Information | 93 |
| Required Supplementary Information | 106 |
| Audit Opinion | 113 |
| Working Capital Fund | |
| Principal Statements | 125 |
| Notes to the Principal Statements | 131 |
| Required Supplementary Information | 167 |
| Audit Opinion | 169 |



November 2014

Message from the Secretary of the Air Force



During my first 11 months as Secretary of the Air Force, I visited 50 bases in 13 states and 6 countries. As I witnessed a diverse team of Airmen enthusiastically performing their duties, I developed three priorities for my tenure: taking care of people, balancing today's readiness with tomorrow's modernization, and making every dollar count. I'm confident our Total Force Airmen will continue to execute the Air Force mission in an efficient and effective manner despite a future of constrained budgets and increased demands.

Airmen are the cornerstone of the United States Air Force. We're committed to fielding a professional force with the right number of highly trained people able to support a broad range of missions. Today, our Airmen are engaged in the fight against ISIL while simultaneously helping countries in Africa deal with the Ebola outbreak. Our Airmen are able to respond to these diverse demands because our leaders are dedicated to promoting a culture of professionalism, dignity and respect. This is critical to our success.

We live in a volatile world. We must be ready to respond to contingencies around the world, requiring continued investment in readiness areas, such as flying hours, maintenance and training ranges. We must also balance these costs with the investments necessary for future warfighting capabilities, such as the F-35A Lightning II Joint Strike Fighter, the KC-46A Pegasus tanker and the long-range strike bomber.

Finally, we're undertaking a comprehensive effort to reduce overhead costs, increase efficiencies, eliminate redundant activities and streamline processes. We're implementing management headquarters manpower reductions and other resource-saving measures to generate additional combat capability for Combatant Commanders. We are encouraging all Airmen to submit money and time-saving proposals to improve our business processes and practices.

Our work towards audit readiness complements this effort, allowing us to accurately measure and manage these savings. Over the last year the Air Force made significant strides towards financial improvement by deploying a modern accounting system throughout Air Mobility Command and asserting that our Schedule of Budgetary Activity is FY15 audit ready. We are committed to managing the resources entrusted to us with accountability and transparency to ensure the world's best Air Force remains the most capable.

A handwritten signature in blue ink that reads "Deborah Lee James".

Deborah Lee James



November 2014

**Message from the Assistant Secretary of the Air Force
for Financial Management and Comptroller**



I've been extremely impressed and pleased with the leadership and analytical skills evident throughout the Financial Management (FM) community. FM is an integral part of the Air Force team, proving its value over-and-over by helping shape strategic decisions in order to achieve Secretary James' objectives. During this past year we have made dramatic progress towards achieving audit readiness, implementing the Defense Enterprise Accounting and Management System (DEAMS), reducing cost risk in our acquisition programs, and leading the Department in FM Certification efforts.

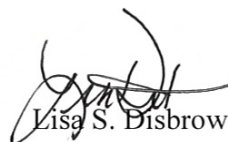
We made great strides in audit readiness, focusing on enhancing system controls and validating key reconciliation processes. We completed examinations of our civilian pay and funds distribution as well as assertions on the existence and completeness of munitions maintained by the Air Force. Based on our progress and lessons learned from our sister services and other federal agencies, we asserted audit readiness for our Schedule of Budgetary Activity (SBA). We know our first year audit will be challenging, but we're confident that we are ready and that we will benefit from an independent assessment of our efforts.

DEAMS serves as the foundation for the Air Force's enduring audit readiness and continuous financial improvement. Over the past year we completed our deployment to all Air Mobility Command bases and on 1 October 2014, added Air Force Global Strike Command and ten Air Combat Command bases. Additionally, a second Operational Assessment (OA) by AFOTEC found the program *"to be on track towards effectiveness, suitability, mission capability and readiness for Initial Operational Test and Evaluation"* and noted the program made significant progress since a 2012 OA.

Our mission as Air Force financial managers is to serve with integrity as trusted advisors on all financial matters by providing the highest quality support to senior decision makers. One of our core functions is cost estimation of our major procurement programs. Our cost estimating team works hand-in-hand with our Programming and Budget teams to properly resource major acquisition programs. Since 2011, we have increased the number of programs reviewed from 20 to 65, and reduced Program Objective Memorandum cost risk from \$12B to \$1B.

To ensure our FM team leads from the front, we will continue our focus on FM certification. Our greatest asset is smart, motivated financial management professionals. This year we rolled out the FM Certification program to help improve our workforce. This effort will enable us to quickly update the skills of our people as we face continuing budgeting, cost estimating, and accounting challenges. I am particularly pleased to report that Air Force represents 68 percent of the DoD certifications awarded to date.

As we close 2014, I look forward to an exciting and equally successful 2015.



Lisa S. Disbrow

Air Force Vision

"The United States Air Force will be a trusted, reliable joint partner with our sister services known for integrity in all of our activities, including supporting the joint mission first and foremost. We will provide compelling air, space, and cyber capabilities for use by the Combatant Commanders. We will excel as stewards of all Air Force resources in service to the American people, while providing precise and reliable Global Vigilance, Reach and Power for the nation."

Air Force Mission

The mission of the United States Air Force is to
fly, fight and win...in air, space and cyberspace.

Management Discussion and Analysis

Air Force Heritage



60th Anniversary of the Air Force Academy

This year the Air Force is observing the 60th anniversary of the founding of the Air Force Academy. On April 1, 1954 President Dwight Eisenhower signed legislation creating the academy. Then-secretary of the Air Force Harold E. Talbott established a commission to select the permanent location. The commission travelled 21,000 miles to visit 580 proposed locations in 45 states. After which, the commission narrowed the candidates to three sites and from these; Secretary Talbott chose the location near Colorado Springs. The state of Colorado contributed \$1 million and construction began in 1955. The original facilities were completed at a cost of \$142 million.

Air Force Academy Historic Milestones

- July 11, 1955-The first class of 306 cadets was sworn in at a temporary site at Lowry Air Force Base in Denver.
- August 29, 1958-The first wing of 1,145 cadets moves to its current site in Colorado Springs, Colorado.

- October 1964-President Lyndon Johnson authorized the nation's three service academies to increase enrollment from 2,529 to 4,417.
- October 7, 1975-President Gerald R. Ford signed legislation permitting women to enter the nation's military academies.
- May 1980-The first class with women graduates
- October 24, 1994-General Ronald R. Fogleman (USAFA Class of 1963) becomes the first academy graduate to be appointed Air Force Chief of Staff.



Class of 2014 Swearing In Ceremony

The Air Force Academy is recognized as one of the nation's leading academic institutions. The faculty consists of 535 professors and instructors. Approximately 70 percent of the faculty are career military officers and the remaining 30 percent are civilian faculty members. There are 22 authorized Permanent Professors including the Dean of the Faculty who serves in the grade of brigadier general.

The core curriculum provides the knowledge that prepares all cadets for the Air Force profession. The academic core consists of 45 semester hours in engineering and basic sciences and 45 semester hours in humanities and social sciences. This 90 semester hour total comprises 60 percent of the total academic curriculum. Other core requirements include five semester hours of physical education courses and six semester hours of military strategic studies. The excellent education that cadets receive reflects in the large

number of prestigious postgraduate scholarships academy graduates are awarded. Since the academy's founding, cadets have been granted more than 2,500 of these prestigious awards, including 35 Rhodes and 10 Marshall Scholarships.



Graduation Ceremony of the Class of 2014

Since its inception, the Air Force Academy has graduated 47,000 second lieutenants. More than 500 general officers, two combat aces and one Medal of Honor recipient are academy graduates. During the last 60 years, the Air Force Academy has excelled in its dual role of providing an excellent education and preparing men and women to be Air Force officers.

Air Force Core Missions

The mission of the United States Air Force is to fly, fight and win in air, space and cyberspace. This mission can be divided into five responsibilities:

Air and Space Superiority: Air superiority has provided our Nation with a decades-long asymmetric advantage. Joint force and coalition commanders have come to expect the mission-essential air superiority that over 115,000 of America's Airmen deliver daily. Not since April 15, 1953, has an enemy combat aircraft killed a servicemember in the American ground forces. Without air superiority, our nation's military would have to radically change the way it fights, which would likely occur at the price of more lives lost.

Space superiority is critical to U.S. national defense. Every day over 15,000 Airmen work to ensure space superiority. For example, the Global Positioning System (GPS) enables precision guided munitions employment by all services minimizing collateral damage. Air Force military satellite communications systems, including Advanced Extremely High Frequency and Wideband Global SATCOM satellites, provide wideband and protected communications to deployed forces. This provides the command and control needed by joint force commanders around the world.

Intelligence, Surveillance, and Reconnaissance (ISR): Air Force ISR is about helping leaders make informed decisions to maintain deterrence, contain crises, or achieve success in battle. Through a mix of aircraft, satellites, and other technologies that collect, exploit, and disseminate critical information, Air Force ISR gives policymakers the ability to minimize uncertainty about our adversaries and their capabilities. It does so by strengthening deterrence, providing intelligence that allows commanders a decision-making advantage, and delivering real-time information that joint, interagency, and coalition operations rely upon to fight effectively and win. Globally integrated ISR allows American forces to carry out functions that they previously performed with much greater danger and at higher cost.

Our 34,000 ISR Airmen identify and assess adversary targets and vulnerabilities from hideouts to bunkers to mobile launchers with greater accuracy than ever seen in the history of warfare.

Rapid Global Mobility: The Air Force's 122,000 air mobility Airmen provide swift deployment and the ability to sustain operations by delivering essential equipment and personnel for missions ranging from major combat to humanitarian relief operations around the world. Mobility forces also provide in-flight refueling, which is a unique Air Force

capability and the linchpin to joint power projection at intercontinental distances.

Air Force transport aircraft depart for a mission every 90 seconds, 24 hours a day, 365 days a year. On any given day, the Air Force's inventory of mobility aircraft delivers critical personnel and cargo and provides airdrop of time-sensitive supplies, food, and ammunition on a global scale.

The Air Force is saving lives with unprecedented survival rates because our highly skilled aeromedical transport teams swiftly evacuate combat casualties. The Air Force's ability to evacuate wounded troops promptly from the battlefield to emergency rear-area field hospitals and the first-response medical aid provided en route by pararescue forces or critical care air transport teams have set a new standard for the survival of wounded warriors. Servicemen and women who likely would not have survived in past conflicts now return home to their families.

Global Strike: The Air Force's nuclear and conventional precision strike forces can credibly threaten and effectively conduct global strike by holding any target on the planet at risk and, if necessary, disabling or destroying it promptly—even from bases in the continental United States. These forces possess the unique ability to achieve tactical, operational, and strategic effects all in the course of a single combat mission. Global strike missions include a wide range of crisis response and escalation control options, such as providing close air support to troops at risk, interdicting enemy forces, inserting special operations forces, and targeting an adversary's vital centers. The 26,000 Airmen who execute the global strike mission use a variety of weapons platforms such as bombers, missiles, special operations platforms, fighters, and other Air Force aircraft.

Command and Control: Using the specialized skills of over 53,000 command and control Airmen, the Air Force provides access to reliable communications and information networks so that the joint team can operate globally at a high tempo and level of intensity. Air Force command and control systems give commanders the ability to conduct highly coordinated joint operations on an unequalled scale using centralized command, distributed control, and decentralized execution.

Pervasive and highly interconnected, command and control networks will be extremely contested. The capability to deliver airpower is intimately

dependent on the ability to operate effectively in cyberspace, a domain in and through which we conduct all of our core missions and which is critical to many of our command and control systems. Operations in cyberspace can magnify military effects by increasing the efficiency and effectiveness of air and space operations and by helping to integrate capabilities across all domains.

Air Force in Action--FY 2014

Operational Tempo

During FY 2014, at any given time, more than 26,000 airmen were deployed to contingencies around the globe. Additionally, approximately 51,000 airmen were stationed overseas and more than 135,000 airmen supported Combatant Commander requirements from their home station. Although fiscal constraints created the smallest Air Force in our nation's history, we were able to quickly respond to humanitarian and combat mission demands throughout the world.

The Bipartisan Budget Act reversed some of the damage to Air Force readiness caused by FY 2013 Sequester:

- There were no additional work stoppages in FY 2014 for the Air Force's civilian employees who had been furloughed for six days in FY 2013.
- All combat-coded and institutional flying units that were stood down in FY 2013 were able to resume flying operations.
- The 18% cut to the Weapons Systems Sustainment budget in FY 2013 was not continued in FY 2014; funding was restored to manageable levels

Through the use of innovative predictive analyses, the Air Force was able to link past/future Flying Hour Program, training resources and Weapon System Sustainment funding levels to accurately predict aircraft availability and combat mission readiness rates across multiple mission areas. Overall, there were over 1.3 million flying hours flown in FY 2014 in support of Air Force operational training missions, support to U.S. allies, and in numerous humanitarian and operational activities including responses to the Islamic State in the Levant crisis, the ebola outbreak, Operation Damayan, Operation Deep Freeze, Operation Spartan Shield, Operation Juniper Micron, Operation Noble Eagle, and Operation Odyssey Dawn.

Sexual Assault Prevention and Response

During the last year, the Air Force has worked diligently to combat sexual assault. We have invested in programmatic, educational, and resourcing efforts aimed at reinforcing a zero tolerance environment. The Air Force's mission depends on Airmen having complete trust and confidence in one another. Our core values of Integrity, Service and Excellence, define the standard. Sexual assault is absolutely inconsistent and incompatible with our core values, our mission, and our heritage. As such, our SAPR program is a priority both for ensuring readiness and taking care of our Airmen.

Financial Management

We have an obligation to field the most capable Air Force at the least cost. We will create efficiencies by deactivating and realigning organizations at Headquarters Air Force, Major Commands, Numbered Air Forces and Field Operating Agencies. These efficiencies will help us meet the DoD directive to reduce costs and staff levels by at least 20 percent, eliminating 3,459 positions at headquarters across the Air Force.

We also have a responsibility to balance our force to a size that we can afford to train and operate. The Air Force has submitted a FY 2015 budget that reduces the active duty force from 330,000 this year to 307,000 within five years. We have already approved 13,400 Airmen for voluntary separation and 6,000 for involuntary separation. These Airmen will leave the Air Force by the spring of next year. We have done and are doing everything we can to maximize voluntary separation programs prior to implementing involuntary measures. We will do everything in our power to ease the transition back into civilian life.

In order to increase readiness and to invest in modernization, we have proposed retiring some older aircraft. It has been difficult to get some of these proposals approved through the Congress. These vertical reductions would have allowed us to cut the associated support structure and overhead which would have provided significant savings.

The Air Force has introduced the "Making Every Dollar Count" campaign. Airmen are invited to submit ideas as to how the Air Force can increase efficiencies and save money. Thousands of ideas have been submitted and are being reviewed for possible implementation. The Air Force has saved

approximately \$76 million from ideas that have been implemented.

Acquisition Excellence

During the last year the Air Force has prioritized three acquisition programs: the F-35A Lightning, the KC-46 Pegasus, and the long-range strike bomber.

During FY 2014, the F-35 achieved major milestones. Eglin Air Force Base took delivery of the 26th F-35A in May, so the 58th Fighter Squadron at Eglin now has its full complement of aircraft. The F-35 has now flown about 8,700 sorties and over 14,000 flight hours. The F-35 will play a major role in ensuring American air superiority many years in the future.

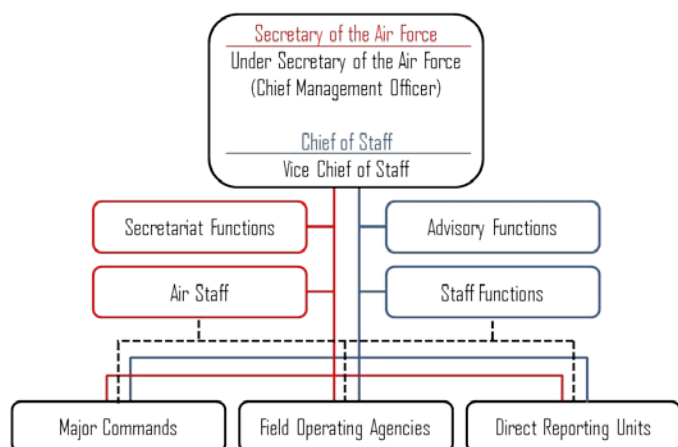
The Air Force refueling fleet is the lifeblood of U.S. military global response capability. The 179 KC-46 aircraft the Air Force will receive between 2016 and 2028 will bring more refueling capacity, improved efficiency, and air medical evacuation to both our Air Force and to the joint warfighting team.

The long-range strike bomber (LRSB) will give our country the ability to hold any target on earth at risk. The LRSB will be a long-range, air-refuelable, highly survivable aircraft with significant nuclear and conventional standoff and direct attack weapons payloads. The Air Force will field 80 to 100 of the aircraft. We have established an achievable and stable set of requirements with a realistic target cost for this airplane. We recently released a request for proposals and we expect very robust competition. Contract award is expected in spring of FY 2015.

Air Force Structure

The command line of the Air Force flows from the President and the National Command Authority to the Secretary of Defense and the Department of the Air Force. The Air Force is headed by the Secretary of the Air Force (SECAF), with the Chief of Staff reporting to the Secretary (see Figure 1). Immediately subordinate to the departmental headquarters are the Major Commands (MAJCOMs), Field Operating Agencies (FOAs), Direct Reporting Units (DRUs), and the Auxiliary.

Figure 1: Air Force Organization Chart



Major Command Structure

Most units of the Air Force are assigned to a specific major command (MAJCOM), led by a general officer. MAJCOMs have extensive functional responsibilities as will be shown on the following pages. They may be subdivided into Numbered Air Forces (NAF) with each responsible for one or more wings or independent groups.

Wings are the primary units of the working Air Force and are responsible for maintaining an Air Force base or carrying out a specific mission. Wings may be commanded by a general officer or a colonel. A wing may have several squadrons in more than one dependent group. Wings typically contain an operations group, a maintenance group, a mission support group and a medical group.

The majority of individual officers and Airmen are assigned to a squadron, which may be composed of several flights. Additionally, there are other types of organizations in the Air Force structure such as centers, field operating agencies and direct reporting units.



An F-22 Raptor flies over Alaska

Air Combat Command (ACC)

Mission: Air Combat Command is the primary force provider of combat airpower to America's warfighting commands.

Responsibilities: To support global implementation of national security strategy, ACC operates fighter, bomber, reconnaissance, battle-management, and electronic-combat aircraft. It also provides command, control, communications and intelligence systems, and conducts global information operations.

As a force provider, ACC organizes, trains, equips and maintains combat-ready forces for rapid deployment and employment while ensuring strategic air defense forces are ready to meet the challenges of peacetime air sovereignty and wartime air defense. ACC numbered air forces provide the air component to the Central, Southern and Northern Combatant Commands. ACC also augments forces to the European, Pacific, and Strategic Combatant Commands.

Command Personnel: 148,100

Air Education and Training Command (AETC)

Mission: Recruit, train and educate Airmen to deliver airpower for America.

Responsibilities: With a Vision of forging innovative Airmen to power the world's greatest Air Force, the command recruits, trains, and educates Airmen from over 1,400 locations worldwide to sustain the combat capability of the Air Force and the Combatant Commanders. The command must effectively develop Airmen through basic military training, technical and flying training, officer and reserve officer training, graduate and professional continuing education, and professional military education. AETC's role makes it the First Command to touch the life of every Airman.

Command Personnel: 64,200

Air Force Global Strike Command (AFGSC)

Mission: Develop and provide combat-ready forces for nuclear deterrence and global strike operations ... *Safe, Secure, Effective*, to support the President of the United States and combatant commanders.

Responsibilities: Organize, train and equip the Air Force's three intercontinental ballistic missile wings, two B-52 Stratofortress wings and the single B-2 Spirit wing. The three weapons systems make up two-thirds of the nation's strategic nuclear triad by providing the land-based and airborne nuclear deterrent forces.



A B-2 Spirit lines up for a landing in England

Command Personnel: 23,400

Air Force Materiel Command (AFMC)



Mission: Deliver technology, acquisition, test, sustainment and expeditionary capabilities to the warfighter.

Responsibilities: AFMC delivers war-winning expeditionary capabilities to the warfighter through development and transition of technology, professional acquisition management, exacting test and evaluation, and world-class sustainment of all Air Force weapon systems. From cradle-to-grave, AFMC provides the work force and infrastructure necessary to ensure the United States remains the world's most respected Air and Space Force.

Command Personnel: 78,580

Air Force Reserve Command (AFRC)



Mission: To provide combat ready forces to fly, fight, and win in air, space, and cyberspace.

Responsibilities: The AFRC augments the active component. The AFRC is extremely cost effective and retains valuable military expertise and mission continuity on a ready-now, but called-up as needed basis. Reserve units are staffed and trained to meet the same training standards and readiness levels as the active component forces, and are supplied with

the same equipment on an equal priority. Because Reservists are community neighbors and civilian employees in society, many Americans who interact with them have a better understanding of the Armed Forces and military service.



A C-130 flown by an Air Force Reserve crew flies over Charleston, SC

Command Personnel: 70,400

Air Force Space Command (AFSPC)



Mission: Provide resilient and cost-effective space and cyberspace capabilities for the joint force and the nation.

Responsibilities: Organizing, equipping, training and maintaining mission-ready space and cyberspace forces and capabilities for North American Aerospace Defense Command, U.S. Strategic Command and other combatant commands world-wide. AFSPC oversees Air Force network operations to provide capabilities in cyberspace, manages a global network of satellites, and is responsible for space system development and acquisition. It executes spacelift operations to launch satellites with a variety of expendable launch systems and operates to provide space capabilities in support of combatant commanders. AFSPC provides positioning, navigation, timing, communications, missile warning, weather and intelligence warfighting support.

AFSPC operates sensors that provide direct attack warning and assessment to U.S. Strategic Command and North American Aerospace Defense Command.

Command Personnel: 40,000



An Atlas V rocket carrying a GPS satellite is launched from Cape Canarvel

Air Mobility Command (AMC)

Mission: Provide global air mobility
... right effects, right place, right time.

Responsibilities: AMC Airmen — active duty, Air National Guard, Air Force Reserve and civilians — provide airlift and aerial refueling for all of America's armed forces. They also provide aeromedical evacuation and Global Reach laydown. The command has many special duty and operational support aircraft and plays a crucial role in providing humanitarian support at home and around the world.

Command Personnel: 130,715



A KC-135A refuels an F-15E Strike Eagle over North Carolina

Air National Guard (ANG)

Mission: The Air National Guard has both a federal and state mission. This dual mission, a provision of the U. S.

Constitution, results in each guardsman holding membership in the National Guard of his or her state and in the National Guard of the United States.

Federal Mission: Maintain well-trained, well-equipped units available for prompt mobilization during war and provide assistance during national emergencies, such as natural disasters or civil disturbances. During peace, the combat-ready units and support units are assigned to Air Force major commands to carry out missions compatible with training, mobilization readiness, humanitarian and contingency operations. ANG provides almost half of the Air Force's tactical airlift support, combat communications functions, aeromedical evacuation and aerial refueling. In addition, ANG has total responsibility for air defense of the entire United States.

State Mission: When ANG units are not mobilized or under federal control, they report to the governor of their respective state, territory or the commanding general of the District of Columbia National Guard. Under state law, ANG provides protection of life and property, and preserves peace, order and public safety through emergency relief support during natural disasters, search and rescue operations, support to civil defense authorities, maintenance of vital public services and counterdrug operations.

Responsibilities: The Air National Guard provides tactical airlift, air refueling tankers, general purpose fighters, rescue and recovery capabilities, tactical air support, weather flights, strategic airlift, special

operations capabilities and aeromedical evacuation units.

Command Personnel: 105,400

Pacific Air Forces (PACAF)



Mission: Provide Pacific Command integrated expeditionary Air Force capabilities to defend the homeland, promise stability, dissuade/deter aggression, and swiftly defeat enemies.

Responsibilities: PACAF's area of responsibility extends from the west coast of the United States to the east coast of Africa and from the Arctic to the Antarctic, covering more than 100 million square miles. The area is home to 50 percent of the world's population in 36 nations and over one-third of the global economic output. The unique location of the strategic triangle (Hawaii-Guam-Alaska) gives our nation persistent presence and options to project U.S. airpower from sovereign territory.

Command Personnel: 46,640

U.S. Air Forces in Europe (USAFE)



Mission: As the air component for both U.S. European Command (USEUCOM), and U.S. Africa Command (USAFRICOM), USAFE

directs air operations in a theater spanning three continents, covering more than 19 million square miles, containing 105 independent states, and possessing more than a quarter of the world's population and more than a quarter of the world's Gross Domestic Product.

Responsibilities: USAFE is an Air Expeditionary Force with a mobile and deployable mix of people and resources that can simultaneously operate in multiple locations. Its role in Europe and Africa has expanded from warfighting to include humanitarian and peacekeeping operations, as well as other non-traditional contingencies throughout its area of responsibility. In peacetime, USAFE trains and equips U.S. Air Force units pledged to the North Atlantic Treaty Organization (NATO).

Command Personnel: 35,160

Air Force Special Operations Command (AFSOC)



Mission: America's specialized air power — a step ahead in a changing

world, delivering special operations power anytime, anywhere.

Responsibilities: Air Force Special Operations Command provides Air Force special operations forces (SOF) for worldwide deployment and assignment to combatant commands. The command's SOF are composed of highly trained, rapidly deployable airmen, conducting global special operations missions ranging from precision application of firepower, to infiltration, exfiltration, resupply, and refueling of SOF operational elements.

The command's core missions include battlefield air operations; agile combat support; aviation foreign internal defense; information operations; precision aerospace fires; psychological operations; specialized air mobility; specialized refueling; and intelligence, surveillance and reconnaissance.

Command Personnel: 19,500



Special Forces personnel launch a surface-to-air missile at Eglin, AFB

Direct Reporting Unit (DRU)

A DRU is a subdivision of the Air Force that is directly subordinate to Headquarters Air Force, separate from any MAJCOM or FOA because of a unique Test and Evaluation Center.

Civil Air Patrol (CAP)



Mission: Support America's communities with emergency response, diverse aviation and ground service, youth development and promotion of air and space power.

Responsibilities: Civil Air Patrol provides operational capabilities in support of aerial and ground search and rescue disaster relief and counterdrug and homeland security missions. It conducts 90 percent of all inland search-and-rescue missions tasked by the Air Force Rescue

Coordination Center. It builds strong citizens for the future by providing leadership training, technical education, scholarships and career education to young men and women, ages 12 to 21, in the CAP cadet program. It promotes and supports aerospace education, both for its members and the general public, and conducts a national school enrichment program from K-12.

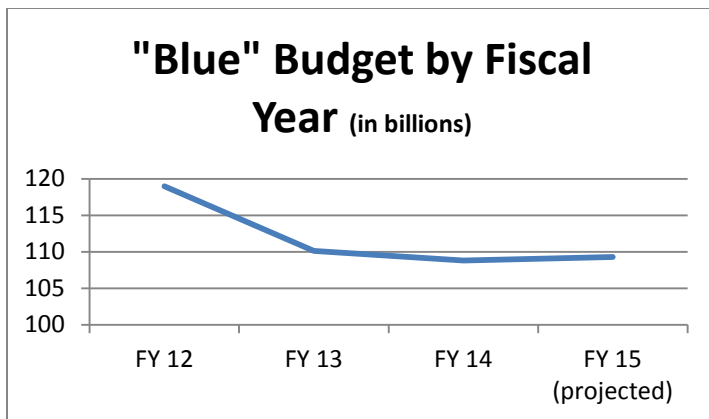
Personnel: 58,440

Field Operating Agency (FOA)

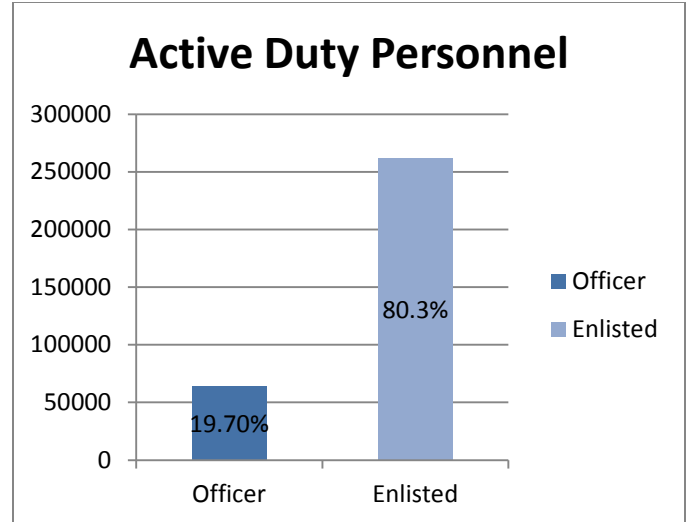
A FOA is a subdivision of the Air Force that carries out field activities under the operational control of a Headquarters U.S. Air Force functional manager. FOAs perform field activities beyond the scope of any of the MAJCOMs. Examples of FOAs include the Air Force Audit Agency, Air Force Civil Engineer Center, Air Force Financial Services Center, Air Force Services Agency, and Air Force Weather Agency, among others.

Air Force Resources

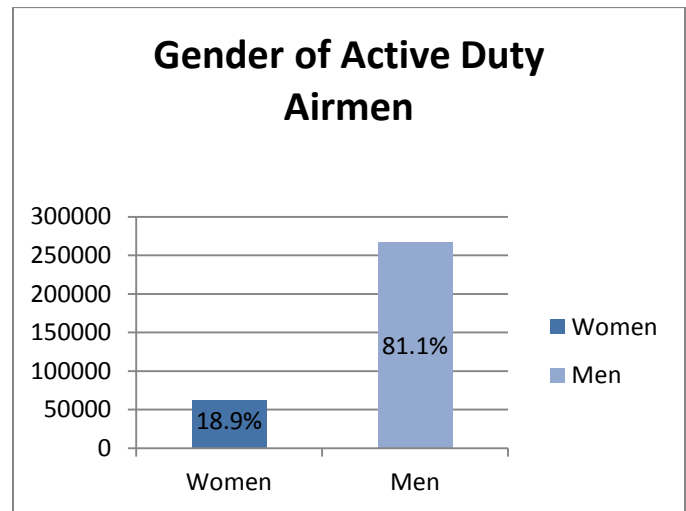
Budget: The Air Force "Blue" budget are the funds directed controlled by Air Force management.



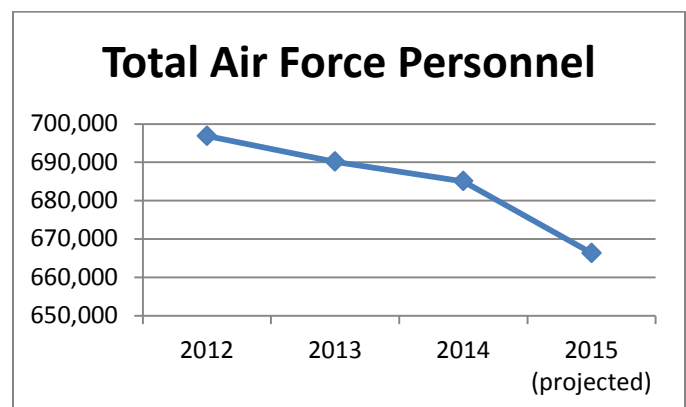
Personnel: The Air Force consists of 326,250 active duty, 70,400 reserve, 105,400 guard and 183,000 civilian personnel. Aerospace power is a proven necessity for victory on land, sea, air, space, and cyberspace. The foundation for this is our people. The reserve component (Air Force Reserve and Air National Guard) has become more important than ever in sustaining worldwide operations. These warriors make possible the successful accomplishment of Air Force missions.



The Air Force has 13,805 pilots, 3,600 navigators and 1,539 air battle managers in the grade of lieutenant colonel and below. The Air Force has 25,299 nonrated line officers in the grade of lieutenant colonel and below.

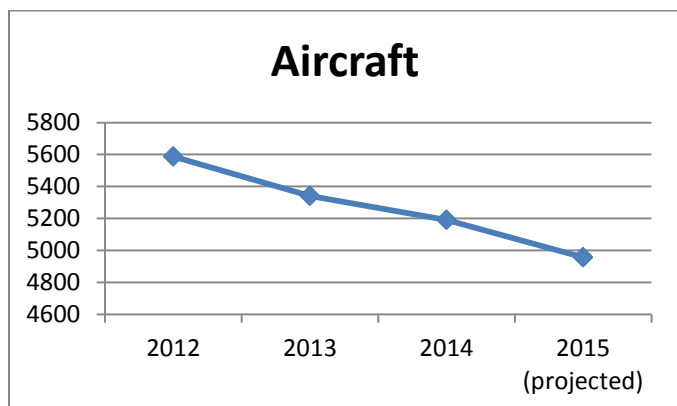


There are 61,587 women serving in the Active Air Force. The Air Force has 711 female pilots, 272 navigators, and 223 air battle managers.



Bases: The Air Force is a global force with facilities in the United States and around the world. The Air Force has 65 major bases in the continental United States and another 14 major bases outside the continental United States. In addition, the Air Force has 77 minor bases worldwide.

Aircraft: The Air Force has 5,191 aircraft. Flying the most technologically advanced aircraft in the world helps us maintain air superiority, provide global mobility, and gives us precision strike capability.



Management Assertions

Internal Controls and Material Weaknesses

The objectives of the Air Force's system of internal control are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Financial information systems are compliant with the Federal Financial Management Improvement Act of 1996 (FMFIA)

The Air Force implements its internal control program at all levels and endeavors to improve the efficient and effective use of resources. Effective internal controls increase accountability and transparency.

Internal control evaluations are performed to determine whether internal controls measures are in place and operating effectively. After review, if management detects a control weakness, the cause is determined and a corrective action plan is implemented. If the weakness is deemed to be material, the progress of the corrective action to remedy the material weakness is monitored through the Air Force weakness tracking system.

This system tracks all corrective actions and identifies responsible personnel and completion dates. Tracking continues from the first report of the weakness and until the weakness is resolved. The weakness is considered closed only after corrective actions are confirmed to be effective.

Operational Material Weaknesses: The Air Force can provide a qualified statement of reasonable assurance that operational internal controls meet the objectives of FMFIA with the exception of three unresolved material weaknesses:

- Enterprise Information Protection Capability
- Air Force Audit Follow Up Program
- Segregation of Duties in the Defense Travel System

During FY14 two operational material weaknesses were corrected:

- Information Assurance Workforce Improvement Program
- Weapons of Mass Destruction Emergency Response Program

Financial Reporting Material Weaknesses: The Air Force can provide a qualified statement of reasonable assurance that internal controls over financial reporting were operating effectively, with the exception of 11 General Fund and 4 Working Capital Fund material weaknesses:

General Fund:

- Weaknesses in Accounts Receivable Financial Reporting
- Weaknesses in Accounts Payable Financial Reporting
- Weaknesses in Recording Real Property and Construction-In-Process
- Incomplete Existence and Completeness of Government Furnished Equipment
- Failure to Use Historical Cost to Value Operating Materials and Supplies
- Incomplete Reporting of Contractor Managed and Possessed Operating Materials and Supplies
- Environmental Clean-Up Costs Cannot Be Supported
- Other Accounting Entries
- Failure to Eliminate Intragovernmental Transactions
- Failure to Report Program Costs on the Statement of Net Cost
- Failure to Reconcile Net Costs to Budget

Working Capital Fund:

- Deficiencies in Accounts Receivable Financial Reporting
- Deficiencies in Accounts Payable Financial Reporting
- In-Transit Inventory Tracking, Visibility and Financial Reporting
- Deficiencies in Spending Authority form Offsetting Earned and Collected

Integrated Financial Management System

(IFMS) Material Weakness: The unified group of Air Force financial systems do not substantially meet the Federal Financial Management Improvement Act, Office of Management and Budget Circular A-123, Appendix D and the Department of Defense Financial Management Regulation Volume 1, Chapter 3, requirements for compliance under the FMFIA. This material weakness applies to both the General Fund and the Working Capital Fund.

The design of legacy Air Force financial management and feeder systems does not allow them to collect and record financial information based on a full accrual accounting basis, provide the necessary system access controls, or comply with the U.S. Standard General Ledger at the transaction level. Until the targeted enterprise resource planning system is fully deployed, the Air Force will not be completely compliant with FFMIA, and proprietary financial reporting will be largely based on budgetary transactions and non-financial feeder systems.



F-16s fly in formation

Defense Enterprise Accounting and Management System (DEAMS)

The Air Force is deploying the Defense Enterprise and Accounting Management System (DEAMS) as part of our effort to be FFMIA-compliant. DEAMS is an enterprise resource planning system designed to manage the Air Force General Fund and elements of the Transportation Working Capital Fund. DEAMS utilizes the Oracle E-Business Suite to meet federal financial system requirements and comply with federal accounting standards. A March 2014 Operational Assessment of DEAMS completed by the Air Force Operational Test and Evaluation Center confirmed that DEAMS is on track to towards effectiveness, suitability, and mission capability and readiness.

During FY 2014, DEAMS was deployed to all Air Mobility Command bases. On October 1, 2014 the system was deployed to all Global Strike Command and ten Air Combat Command (ACC) bases. By February 2015, DEAMS will be deployed at the remaining ACC bases and all Air Education and Training Command bases. Personnel at all Air Force Reserve Command and Air National Guard bases will use DEAMS by June 2015. All remaining Air Force bases will deploy DEAMS by FY 2017.

DEAMS will improve Air Force auditability by sharing financial data, automating the processing of transactions between business partners, eliminating manual processes, and reducing offline processing. In addition, DEAMS has adopted the Standard Federal Information Structure which allows information to be shared seamlessly with other DoD components and enables consistent reporting for Congress, Office of the Secretary of Defense and Air Force senior leaders which will further advance the Air Force's efforts of publishing auditable statements.

Automated Time Attendance and Production System (ATAAPS)

ATAAPS has advanced the Air Force's audit readiness efforts by transitioning from a manual time and attendance (T&A) environment to an automated environment. The automated T&A environment provides effective controls throughout the timekeeping process that prevent manual errors and retain supporting documentation. ATAAPS captures labor hours by job order and provides an audit trail of supervisors' certification and employees concurrence (signature).

Progress Towards Auditable Financial Statements

Schedule of Budgetary Activity

On June 30, 2014, the Air Force confirmed that the Schedule of Budgetary Activity (SBA) will be ready for the FY 2015 audit. The SBA represents the current-year general fund budgetary activity starting with new appropriations received in FY 2015. The initial SBA audits will not include balances from prior year activity. SBA audits will continue for several years, when Statement of Budgetary Resources (SBR) and all remaining financial statements audit will begin in FY 2018 and include auditable opening balances from prior year SBA audits. The SBA is organized similarly to the SBR. The SBA is comprised of:

1. Budgetary Resources
2. Status of Budgetary Resources
3. Change in Obligated Balance
4. Budget Authority and Net Outlays

The Air Force applied the FIAR Guidance methodology to assess whether supporting documentation and internal controls exist and are properly designed to meet the audit readiness objectives. The Air Force has identified some deficiencies and has focused its remediation efforts to substantially address the following critical areas:

- **Completeness of Accounting Population-** The Air Force, working in conjunction with the Defense Finance and Accounting Service, is working to improve the current capability to provide transaction details that are fully reconciled to the source systems
- **Journal Voucher Support-** Some unsupported journal vouchers have been identified and the Air Force is in the process of developing proper supporting documentation and eliminating journal vouchers where possible
- **Service Provider Integration-** The Air Force, working in tandem with our service providers, is developing comprehensive memoranda of agreement that enumerate all key controls, supporting documentation and associated roles and responsibilities.
- **Audit Support Infrastructure-** The Air Force is enhancing its audit support infrastructure by standing up an audit support team, workflow tool, communication protocol and training.
- **Self-Identified Deficiencies-** The Air Force is performing root cause analysis to determine

the source of control gaps and in many cases updating policies, procedures and enhancing sustainment testing to address control weaknesses identified during testing

The critical corrective actions are planned to be completed by December 2014. After which, an independent public audit firm will conduct an audit of the transactions, documentation, and controls supporting the SBA.

Existence and Completeness of Mission Critical Assets

The Air Force continues to make significant progress towards its goal of asserting to the Existence and Completeness (E&C) of Mission Critical Assets. The Air Force reported approximately \$187.7 billion of inventory and property, plant and equipment on our FY 2014 Balance Sheet. Establishing the E&C of Mission Critical Assets will demonstrate to congress and the American people that the property entrusted unto us is well managed. The benefits to the Air Force include:

- Stronger internal controls over assets which will help prevent fraud, waste, and abuse
- Improved supply chain management, which will help ensure that items needed by the warfighter are available when needed
- Improved ability to acquire, maintain, utilize and retire property, plant and equipment in a timely manner
- Better quality management information

We have already asserted to the E&C of Military Equipment (which includes aircraft, satellites, and inter-continental ballistic missiles), cruise missiles, spare engines, uninstalled missile motors and aerial targets/drones. In June 2012, the DoD Inspector General issued an unqualified examination opinion on Military Equipment, which is now classified and reported as a component of General Property, Plant and Equipment on the Balance Sheet. The value of these assets is approximately \$86 billion, which is 41 percent of Air Force mission critical assets and 14 percent of DoD mission critical assets. The Air Force has ten remaining E&C assessable units to assert:

- Real Property
- General Equipment
- General Equipment-Information Technology
- OM&S/Inventory-Base Possessed
- OM&S-Medical/Dental
- OM&S/Inventory- In Transit

- OM&S/Inventory-Depot
- OM&S-U2/Unmanned Aerial Vehicles
- Government Furnished Equipment (GFE)
- Contractor possessed OM&S/Inventory

The Air Force asserted to the E&C of Air Force-possessed Munitions. The Air Force possesses 359 million separate munitions assets valued at approximately \$15 billion. The Army purchases approximately 90 percent of Air Force munitions and physically possesses about 40 percent (in dollar amount terms) of Air Force munitions.

The Real Property, OM&S-Base Possessed, and General Equipment Assessable Units (AUs) completed internal control and partial dual purpose testing in September 2014 consistent with our Financial Improvement Plans (FIPs). The remaining AU's will complete testing in 2015 in preparation for assertion of Wave 3 in June 30, 2016. Several challenges remain to include accounting for all of the government-owned property in the possession of contractors and reconciling the general ledger to the subsidiary ledgers at the transaction level for balances in the Accountable Property Systems of Record.

However, the Financial Management community is working closely with the functional community to overcome these challenges, and to develop and implement corrective action plans that will enable the Air Force to assert to the E&C of Mission Critical Assets.



ANG Airmen await extraction by a CH-47

Analysis of Financial Statements

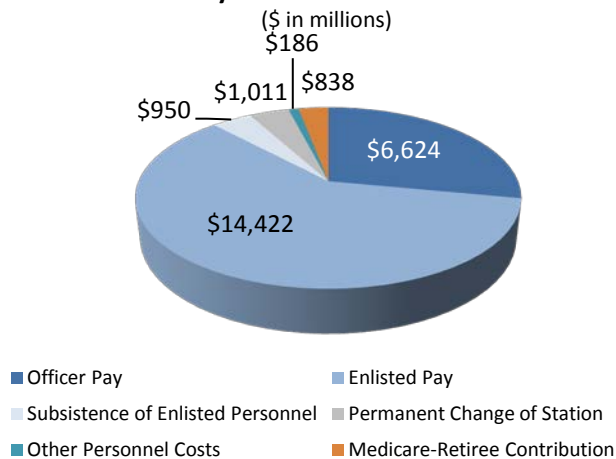
As discussed in the accompanying independent auditor's report, long-standing financial management challenges prevent the Air Force from producing auditable financial statements for either the General Fund or the Working Capital Fund. The Air Force has made significant progress toward improving the quality and timeliness of our financial information. The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with accounting principles generally accepted for federal entities and the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

Air Force General Fund

The General Fund is the fund into which most receipts of the United States Government are deposited. Exceptions include receipts from specific sources required by law to be deposited into other designated funds and receipts from appropriations made by Congress to carry on the general and ordinary operations of the Government. The Notes to the Principal Statements provide more detail on the appropriations. The major appropriations in the Air Force General Fund and their uses are introduced below.

Military Personnel (MILPERS)

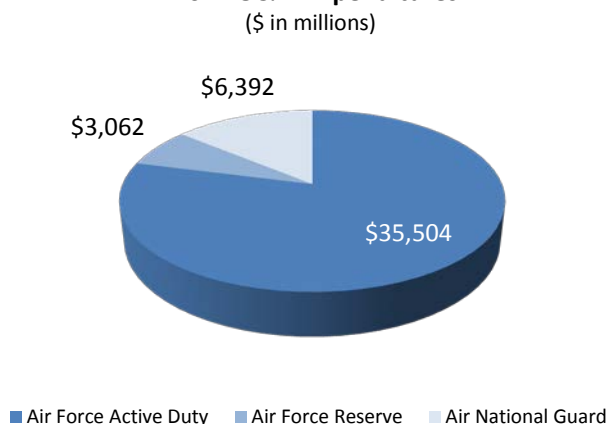
This appropriation provides funding for the care and payroll of our Airmen. It includes all direct military compensation for active duty, reserve, guard, and retired personnel, including regular pay, allowances, and bonuses. Additionally, this appropriation funds all Permanent Change of Station (PCS) moves and supports a total force (active, reserve and guard) of 502,050.

Military Personnel -Active Air Force**O&M-Air Force Total Force Blue TOA**

| Air Force Total Force TOA (\$ in millions) | FY 14 Expenditure |
|--|-------------------|
| Flying Operations | \$17,988 |
| Civilian Pay | \$10,959 |
| Installation Support and FSRM | \$6,290 |
| Space/Other Combat Forces | \$5,429 |
| Logistics Ops and Air Force-Wide Support | \$2,281 |
| Training and Recruiting | \$1,056 |
| Mobility Forces | \$955 |
| Air Force O&M "Blue" TOA Total | \$44,958 |

Operations & Maintenance (O&M)

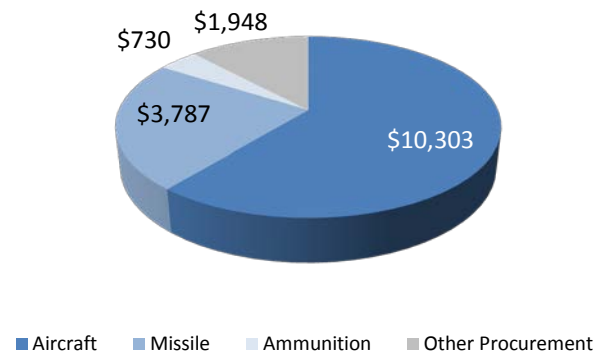
This appropriation funds readiness programs critical to prepare forces to conduct combat operations. These include day-to-day operating costs such as flying hours, space operations, depot maintenance, training, spare parts, facilities, base operations and civilian pay. The FY 2014 appropriation supported 79 major installations, including operations at two space lift ranges and 1.3 million flying hours.

FY 2014 O&M Expenditures**Procurement**

This appropriation provides for purchase of aircraft, missiles, vehicles, electronic and telecommunications equipment, satellite and launch equipment, and base maintenance and support equipment. To defend against a high-end threat in 2023, we shifted our priority from legacy modernization to recapitalizing capabilities.

FY 2014 "Blue" Procurement

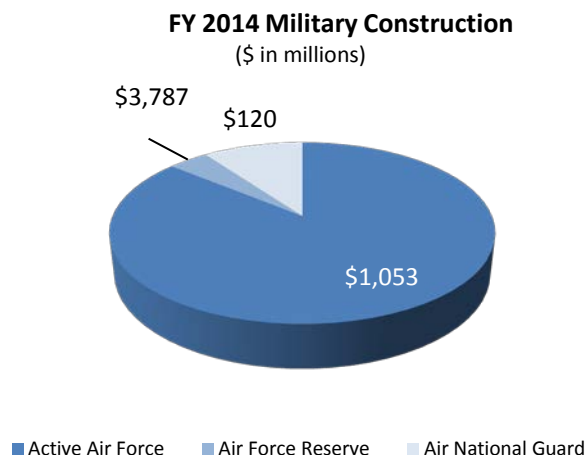
(\$ in millions)



| Aircraft Procurement (\$ in millions) | FY 14 Expenditure |
|--|-------------------|
| Combat Aircraft | \$3,229 |
| Modification of In-service Aircraft | \$2,874 |
| Aircraft Support Equipment and Facilities | \$1,370 |
| Airlift Aircraft | \$1,303 |
| Other Aircraft | \$1,129 |
| Aircraft Spares and Repair Parts | \$398 |
| Total "Blue" Aircraft Procurement Total | \$10,303 |

Military Construction

The Military Construction appropriation funds large scale facility construction projects supporting Total Force Airmen. The enacted FY 2014 military construction was \$1,218 million.



Research, Development, Test and Evaluation (RDT&E)

The RDT&E appropriation funds basic and applied scientific research as well as future weapon systems development, test and evaluation. Basic research involves the scientific study and experimentation related to long-term national security, while applied research is the systematic study to understand the means to meet a recognized and specific national security requirement.

| RDT&E (\$ in millions) | FY 14 Expenditure |
|--|-------------------|
| KC-46 | \$1,559 |
| Test and Evaluation Support | \$723 |
| F-35 | \$628 |
| Defense Research Sciences | \$373 |
| GPS III-Operational Control Segment | \$373 |
| Long Range Strike Bomber | \$359 |
| SBIRS High Engineering and Manufacturing Development | \$322 |
| AEHF Military Satellite Communications | \$266 |
| F-15E Squadrons | \$234 |
| RQ-4 | \$120 |
| Total RDT&E Expenditures | \$4,958 |

Military Family Housing (MFH)

The Military Family Housing appropriation funds the Air Force's effort to provide quality homes to Airmen and their families in government-owned and leased units. The Air Force uses the Family Housing Master Plan as a guide to investment planning and programming for military construction, operations and maintenance, and military family housing privatization.

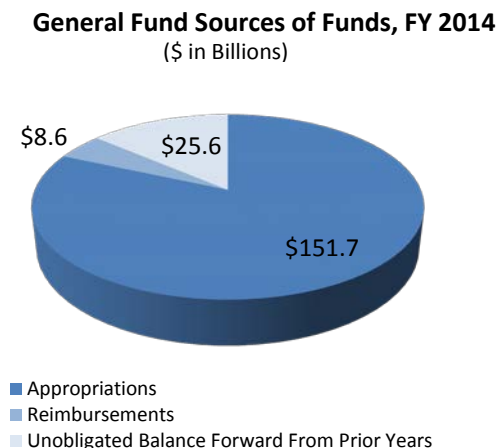
| Military Family Housing (\$ in millions) | FY 14 Expenditure |
|--|-------------------|
| MFH Operating and Maintenance | 385 |
| MFH-Construction Improvements | 72 |
| MFH-Construction Planning and Design | 4 |
| Total MFH "Blue" Expenditures | 461 |

Base Realignment and Closure (BRAC)

The law authorizes Base Realignment and Closure accounts to fund one-time costs that are a result of BRAC-directed actions. In FY 2014 the Air Force expended \$126 million to fund environmental restoration and property management at 29 installations closed under previous BRAC rounds.

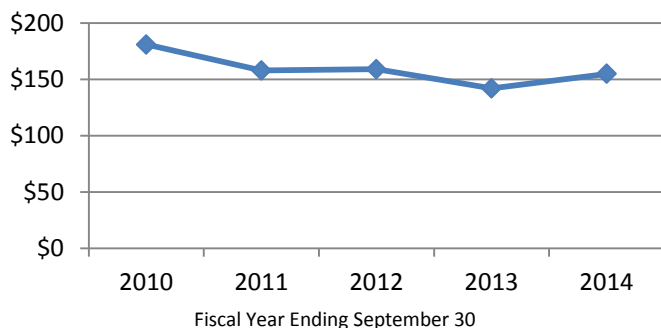
Results of Operation

The Combined Statement of Budgetary Resources presents total budgetary resources of \$188.5 billion that were available to the General Fund during FY 2014. Total budgetary resources for FY 2013 were \$187.8 billion. Total obligations incurred in FY 2014 were \$162.8 billion compared to \$162.1 billion for FY 2013.



The Combined Statement of Net Cost presents net cost of operations of \$154.9 billion during FY 2014 compared to \$142.2 billion for FY 2013. Net cost of operations represents gross costs incurred by the General Fund less earned revenue.

AFGF Net Cost of Operation, FY 2009- 2013
(\$ in Billions)

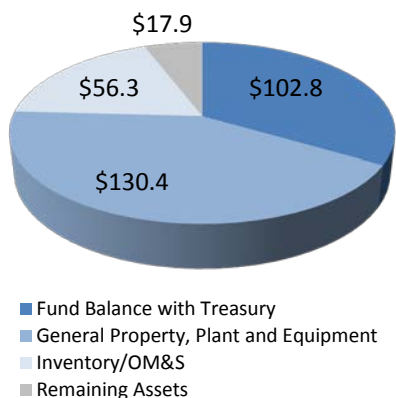


Financial Position

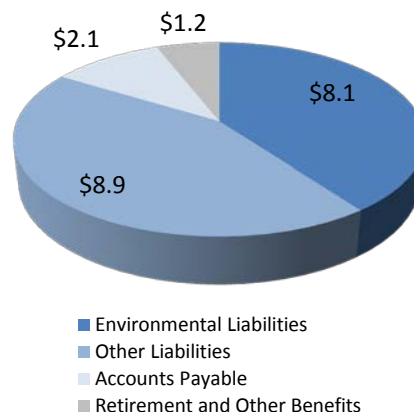
The General Fund continued to report a positive net position on its Consolidated Balance Sheet. Net position is the difference between total assets and total liabilities. As of September 30, 2014, net position totaled \$283.7 billion. As of September 30, 2013 net position totaled \$293.7 billion.

Total assets were \$307.3 billion as of September 30, 2014, compared to \$318.5 billion as of September 30, 2013. Total liabilities were \$23.6 billion as of September 30, 2014, compared to \$24.8 billion as of September 30, 2013.

General Fund Total Assets, FY 2014
(\$ in Billions)



General Fund Total Liabilities, FY 2014
(\$ in Billions)



The Thunderbirds perform a five ship formation over Montana

Air Force Working Capital Fund

The Air Force Working Capital Fund (AFWCF) conducts business in two primary areas: the Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group-Retail (SMAG-R). Air Force Materiel Command (AFMC) manages more than 90 percent of the AFWCF business activity for Supply Management and Depot Maintenance activities. These functions provide goods and services to the Air Force and DoD customers, as well as customers outside the DoD (e.g., local and foreign governments).

In FY 1998 the Air Force was appointed the Executive Agent for Transportation Working Capital Fund (TWCF) cash. Even though AFWCF manages TWCF's cash, daily operations are managed by the United States Transportation Command. As a result, TWCF's financial statements are reported with other Defense Agencies.

Consolidated Sustainment Activity Group (CSAG)

CSAG is an AFWCF business activity chartered for operation in FY 2009. The mission of CSAG is supply management of reparable and Air Force managed consumable items as well as maintenance services.

The **CSAG Maintenance Division** repairs systems and spare parts to ensure readiness in peacetime and to provide sustainment for combat forces in wartime. This division operates on the funds received from its customers through sales of its services. In peacetime, the Air Force enhances readiness by efficiently and economically repairing, overhauling and modifying aircraft, engines, missiles, components and software to meet customer demands. The Maintenance Division's depots have unique skills and equipment required to support and overhaul both new, complex components as well as aging weapon systems. During wartime or contingencies, the depots can surge repair operations and realign capacity to support the war fighter's immediate needs.

CSAG Maintenance Division is managed by AFMC and employs nearly 24,000 personnel supporting four industrial locations:

- Ogden Air Logistics Complex (OO-ALC), UT
- Oklahoma City Air Logistics Complex (OC-ALC), OK
- Warner Robins Air Logistics Complex (WR-ALC), GA
- Aerospace Maintenance and Regeneration Group (AMARG), Tucson, AZ

The **CSAG Supply Division** is primarily responsible for Air Force-managed, depot-level reparable spares and consumable spares unique to the Air Force. Spares are an individual part, subassembly, or assembly supplied for the maintenance or repair of systems or equipment. In addition to management of these inventories, the Supply Division provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management and transportation.

Supply Management Activity Group—Retail

The Air Force Supply Management Activity Group-Retail (SMAG-R) is comprised of three divisions:

General Support, Medical-Dental, and the United States Air Force Academy.

The Air Force SMAG-R provides a wide range of logistics support services including requirements forecasting, item introduction, cataloging, provisioning, procurement, repair, technical support, data management, item disposal, distribution management and transportation. Consumable item inventories are an integral part of SMAG-R and are maintained by each of the divisions in support of customer requirements. The SMAG-R objective is to replenish inventories and provide supplies to customers in a timely manner within customer funding constraints, while maintaining fund solvency. The Air Force SMAG-R manages weapon system spare parts, medical-dental supplies and equipment, and other supply items used in non-weapon system applications.

The **General Support Division (GSD)** manages nearly 1.4 million items, which are procured from Defense Logistics Agency (DLA) and General Services Administration (GSA). GSD customers use the majority of these items to support field and depot maintenance of aircraft, ground and airborne communication and electronic systems, as well as other sophisticated systems and equipment. The GSD also manages many items related to installation, maintenance, and administrative functions.

The **Medical-Dental Division (MDD)** manages items for 74 Medical Treatment Facilities (MTF) worldwide. All supply and equipment requirements generated by Air Force MTFs are procured through this division. MDD also maintains a War Readiness Materiel (WRM) requirement. WRM provides initial war fighting capability until re-supply lines can sustain wartime demands for medical and dental supplies and equipment.

The **Air Force Academy Division** finances the purchase of uniforms and uniform accessories for sale to cadets in accordance with regulations of the Air Force Academy and related statutes. The customer base consists of approximately 4,000 cadets who receive distinctive uniforms procured from various manufacturing contractors.

Air Force Working Capital Fund Customers

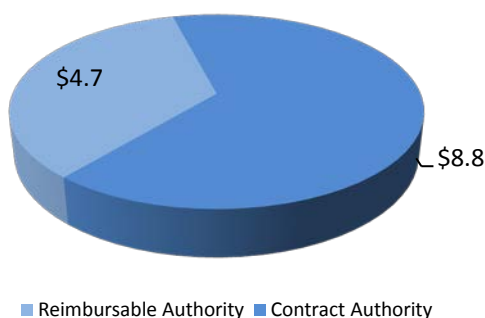
AFWCF provides support to a variety of customers: Air Force Major Commands (including the Air National Guard & Air Force Reserves), the Army, the Navy, other WCFs, other government agencies and foreign countries.

Results of Operation

Available Resources:

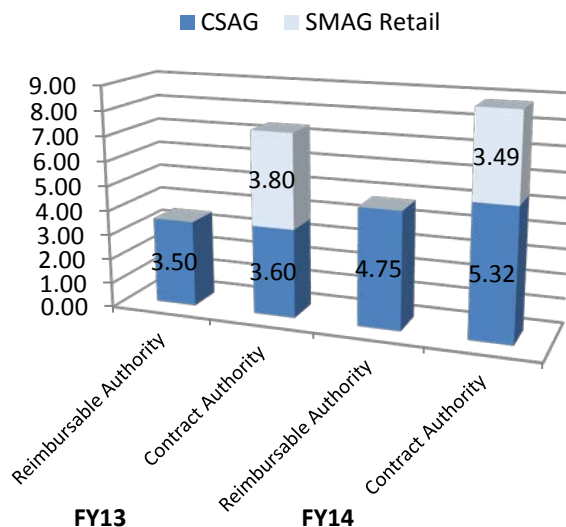
The combined Statement of Budgetary Resources presents total budgetary resources of \$13.5 billion that were available to AFWCF during FY 2014 and the status of those resources at fiscal year-end. Total budgetary resources consist of Reimbursable Authority and Contract Authority Used. For comparison, total budgetary resources for fiscal year-end 2013 were \$10.9 billion. The pie chart below is the graphic representation of the ratio between the Reimbursable Authority and the Contract Authority Used in FY 2014.

WCF Sources of Funds, FY 2014
(\$ in Billions)



The following chart is a two year comparative of how those resources were distributed between CSAG and SMAG-R.

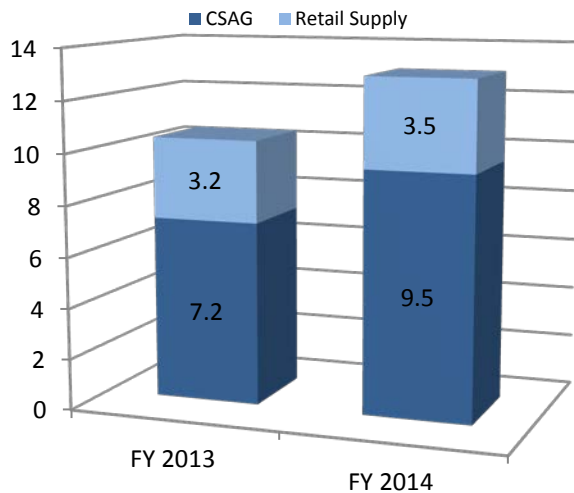
Distribution of Resources by Activity Group
(\$ in Billions)



The combined FY 2014 year end Statement of Budgetary Resources presents the total obligations incurred during FY 2014 of \$13.0 billion, compared to \$10.4 billion during FY 2013. The chart below is a two year comparative of how those obligations were distributed between CSAG and SMAG-R.

The net difference between the FY 2014 total budgetary resources and the total obligations incurred during FY 2014 is the Available Budgetary Resources of \$993.6 million. This balance will carry forward and become the opening balance for AFWCF FY2015 operations. For comparison, the FYE 2013 Available Budgetary Resources for AFWCF were \$545.2 million.

Two Year Comparison of Total Obligations by Activity Group
(\$ in Billions)



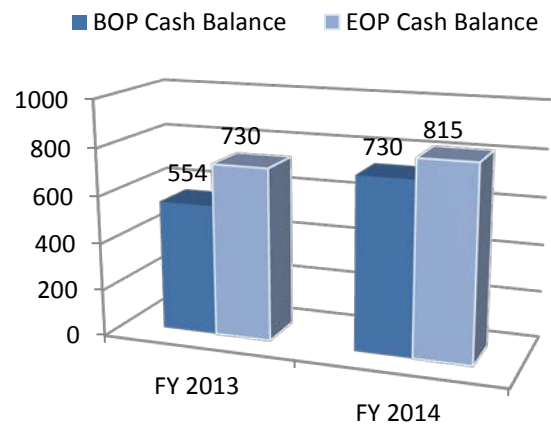
Cash Management

AF targets to maintain cash levels at seven to ten days of operational costs. The target also includes sufficient cash reserves to meet six months of

projected capital outlays, and unliquidated direct appropriations, as required by the Department of Defense Financial Management Regulation.

The AFWCF FY 2014 seven-day cash requirement was \$523.2 million, and the ten-day requirement was \$693.0 million. AFWCF yearend cash balance, \$815.3 million, exceeded the 10 day target. The chart below depicts the comparative cash position.

Comparative Cash Balance
(\$ in Millions)



Fiscal Year 2014

Annual Financial Statements

Limitations to the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31, United States Code, Section 3515 (b). While the statements have been prepared from the books and records of the entity, in accordance with U.S. generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board, and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

General Fund

Principal Statements

Fiscal Year 2014

The FY 2014 Department of the Air Force General Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the General Fund for the fiscal year ending September 30, 2014, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2013.

The following statements comprise the Department of the Air Force General Fund Principal Statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet presents as of September 30, 2014 and 2013 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2014 and 2013.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2014 and 2013, the status of these resources at September 30, 2014 and 2013, and the outlay of budgetary resources for the years ended September 30, 2014 and 2013.

Consolidated Statement of Changes in Net Position-Dedicated Collections

The Consolidated Statement of Changes in Net Positions-Dedicated Collections presents the collection of earmarked fund for the years ended September 30, 2014 and 2013.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2014 and 2013. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's Circular A-136, "Financial Reporting Requirements."

Department of the Air Force
CONSOLIDATED BALANCE SHEET
As of September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Consolidated | 2013 Consolidated |
|--|---------------------------|---------------------------|
| ASSETS (Note 2) | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | \$ 102,756,492 | \$ 100,970,671 |
| Investments (Note 4) | 954 | 1,077 |
| Accounts Receivable (Note 5) | 538,612 | 423,363 |
| Other Assets (Note 6) | 220,314 | 203,947 |
| Total Intragovernmental Assets | \$ 103,516,372 | \$ 101,599,058 |
| Cash and Other Monetary Assets (Note 7) | \$ 77,965 | \$ 83,280 |
| Accounts Receivable, Net (Note 5) | 285,621 | 261,685 |
| Inventory and Related Property, Net (Note 9) | 56,320,794 | 57,594,470 |
| General Property, Plant and Equipment, Net (Note 10) | 130,360,599 | 142,593,418 |
| Other Assets (Note 6) | 16,767,061 | 16,371,817 |
| TOTAL ASSETS | \$ 307,328,412 | \$ 318,503,728 |
| STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10) | | |
| LIABILITIES (Note 11) | | |
| Intragovernmental: | | |
| Accounts Payable (Note 12) | \$ 2,065,786 | \$ 2,195,768 |
| Other Liabilities (Note 15 & 16) | 1,762,643 | 2,056,873 |
| Total Intragovernmental Liabilities | \$ 3,828,429 | \$ 4,252,641 |
| Accounts Payable (Note 12) | \$ 3,339,169 | \$ 3,210,979 |
| Military Retirement and Other Federal | 1,164,231 | 1,194,082 |
| Employment Benefits (Note 17) | | |
| Environmental and Disposal Liabilities (Note 14) | 8,142,364 | 8,661,607 |
| Other Liabilities (Note 15 and Note 16) | 7,173,121 | 7,482,838 |
| TOTAL LIABILITIES | \$ 23,647,314 | \$ 24,802,147 |
| COMMITMENTS AND CONTINGENCIES (NOTE 16) | | |
| NET POSITION | | |
| Unexpended Appropriations - Other Funds | 109,490,258 | 106,573,118 |
| Cumulative Results of Operations - Dedicated | 41,141 | 33,364 |
| Collections (Note 23) | | |
| Cumulative Results of Operations - Other Funds | 174,149,699 | 187,095,099 |
| TOTAL NET POSITION | \$ 283,681,098 | \$ 293,701,581 |
| TOTAL LIABILITIES AND NET POSITION | \$ 307,328,412 | \$ 318,503,728 |

Department of the Air Force
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Consolidated | 2013 Consolidated |
|---|--------------------------|--------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| Beginning Balances | \$ 187,128,463 | \$ 174,535,420 |
| Beginning balances, as adjusted (Includes Funds | 187,128,463 | 174,535,420 |
| Dedicated Collections - See Note 23) | | |
| Budgetary Financing Sources: | | |
| Appropriations used | 146,552,133 | 148,545,663 |
| Nonexchange revenue | (101,720) | 104,508 |
| Donations and forfeitures of cash and cash equivalents | 10,384 | 16,091 |
| Transfers-in/out without reimbursement | 205,336 | (596,005) |
| Other Financing Sources: | | |
| Transfers-in/out without reimbursement (+/-) | 256,135 | 238,398 |
| Imputed financing from costs absorbed by others | 818,188 | 747,791 |
| Other (+/-) | (5,732,825) | 5,734,950 |
| Total Financing Sources (Includes Funds from Dedicated | 142,007,631 | 154,791,396 |
| Collections - See Note 23) | | |
| Net Cost of Operations (+/-) (Includes Funds from | 154,945,254 | 142,198,353 |
| Dedicated Collections - See Note 23) | | |
| Net Change | (12,937,623) | 12,593,043 |
| Cumulative Results of Operations (Includes Funds from | 174,190,840 | 187,128,463 |
| Dedicated Collections - See Note 23) | | |
| UNEXPENDED APPROPRIATIONS | | |
| Beginning Balances (Includes Funds from Dedicated | \$ 106,573,118 | \$ 113,050,127 |
| Collections - See Note 23) | | |
| Beginning balances, as adjusted | 106,573,118 | 113,050,127 |
| Budgetary Financing Sources: | | |
| Appropriations received | 152,159,574 | 154,560,455 |
| Appropriations transferred-in/out | 788,205 | 704,893 |
| Other adjustments (rescissions, etc) | (3,478,506) | (13,196,694) |
| Appropriations used | (146,552,133) | (148,545,663) |
| Total Budgetary Financing Sources (Includes Funds from | 2,917,140 | (6,477,009) |
| Dedicated Collections - See Note 23) | | |
| Unexpended Appropriations (Includes Funds from | 109,490,258 | 106,573,118 |
| Dedicated Collections - See Note 23) | | |
| Net Position | 283,681,098 | 293,701,581 |

Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Combined | 2013 Combined |
|---|---------------|---------------|
| Budgetary Resources: | | |
| Unobligated balance brought forward, Oct 1 | 25,628,189 | 33,078,536 |
| Unobligated balance brought forward, Oct 1, as adjusted, \$ | 25,628,189 | \$ 33,078,536 |
| Recoveries of prior year unpaid obligations | 4,553,827 | 4,304,908 |
| Other changes in unobligated balance (+ or -) | (2,045,605) | (2,779,621) |
| Unobligated balance from prior year budget authority, net | 28,136,411 | 34,603,823 |
| Appropriations (discretionary and mandatory) | 151,731,862 | 144,269,164 |
| Spending Authority from offsetting collections | 8,642,593 | 8,896,412 |
| Total Budgetary Resources | 188,510,866 | 187,769,399 |
| Status of Budgetary Resources: | | |
| Obligations Incurred | 162,763,417 | 162,141,210 |
| Unobligated balance, end of year | | |
| Apportioned | 19,830,205 | 20,240,334 |
| Exempt from Apportionment | 12,862 | 13,293 |
| Unapportioned | 5,904,382 | 5,374,562 |
| Total unobligated balance, end of year | 25,747,449 | 25,628,189 |
| Total Budgetary Resources | 188,510,866 | 187,769,399 |
| Change in Obligated Balance: | | |
| Unpaid obligations: | | |
| Unpaid obligations, brought forward, Oct 1 | 76,881,018 | 81,011,196 |
| Obligations incurred | 162,763,417 | 162,141,210 |
| Outlays (gross) (-) | (156,102,066) | (161,966,481) |
| Recoveries of prior year unpaid obligations (-) | (4,553,827) | (4,304,907) |
| Unpaid obligations, end of year | 78,988,542 | 76,881,018 |
| Uncollected payments: | | |
| Uncollected pymts, Fed sources, brought forward, Oct 1 (-) | (1,962,974) | (2,173,733) |
| Change in uncollected pymts, Fed sources (+ or -) | (385,749) | 210,759 |
| Uncollected pymts, Fed sources, end of year (-) | (2,348,723) | (1,962,974) |
| Obligated balance, start of year (+ or -) | 74,918,044 | 78,837,463 |
| Obligated balance, end of year (+ or -) | 76,639,819 | 74,918,044 |

Department of the Air Force
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Combined | 2013 Combined |
|---|----------------------|----------------------|
| Budget Authority and Outlays, Net: | | |
| Budget authority, gross (discretionary and mandatory) | 160,374,455 | 153,165,576 |
| Actual offsetting collections (discretionary and mandatory) (-) | (8,256,844) | (9,107,170) |
| Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -) | (385,749) | 210,759 |
| Budget Authority, net (discretionary and mandatory) | 151,731,862 | 144,269,165 |
| Outlays, gross (discretionary and mandatory) | 156,102,066 | 161,966,481 |
| Actual offsetting collections (discretionary and mandatory) (-) | (8,256,844) | (9,107,170) |
| Outlays, net (discretionary and mandatory) | 147,845,222 | 152,859,311 |
| Distributed offsetting receipts (-) | (165,256) | (93,909) |
| Agency Outlays, net (discretionary and mandatory) | 147,679,966 | 152,765,402 |

Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2014 and 2013

| (\$ in Thousands) | 2014 Dedicated Collections | 2014 All Other Funds |
|---|-----------------------------------|-----------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| Beginning Balances | \$ 32,260 | \$ 187,096,203 |
| 3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23) | 32,260 | 187,096,203 |
| Budgetary Financing Sources: | | |
| Appropriations used | 0 | 146,552,133 |
| Nonexchange revenue | 1,064 | (102,784) |
| Donations and forfeitures of cash and cash equivalents | 10,384 | 0 |
| Transfers-in/out without reimbursement | 0 | 205,336 |
| Other Financing Sources: | | |
| Transfers-in/out without reimbursement (+/-) | (3,974) | 260,109 |
| Imputed financing from costs absorbed by others | 0 | 818,188 |
| Other (+/-) | 0 | (5,732,824) |
| Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 7,474 | 142,000,158 |
| Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23) | 6,572 | 154,938,683 |
| Net Change | 902 | (12,938,525) |
| Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23) | 33,162 | 174,157,678 |
| UNEXPENDED APPROPRIATIONS | | |
| Beginning Balances (Includes Funds from Dedicated Collections - See Note 23) | \$ 0 | \$ 106,573,118 |
| Beginning balances, as adjusted | 0 | 106,573,118 |
| Budgetary Financing Sources: | | |
| Appropriations received | 0 | 152,159,574 |
| Appropriations transferred-in/out | 0 | 788,205 |
| Other adjustments (rescissions, etc) | 0 | (3,478,506) |
| Appropriations used | 0 | (146,552,133) |
| Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 0 | 2,917,140 |
| Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23) | 0 | 109,490,258 |
| Net Position | 33,162 | 283,647,936 |

Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | <u>2014 Eliminations</u> | <u>2014 Consolidated</u> |
|---|--------------------------|--------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| Beginning Balances | \$ 0 | \$ 187,128,463 |
| 3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23) | 0 | 187,128,463 |
| Budgetary Financing Sources: | | |
| Appropriations used | 0 | 146,552,133 |
| Nonexchange revenue | 0 | (101,720) |
| Donations and forfeitures of cash and cash equivalents | 0 | 10,384 |
| Transfers-in/out without reimbursement | 0 | 205,336 |
| Other Financing Sources: | | |
| Transfers-in/out without reimbursement (+/-) | 0 | 256,135 |
| Imputed financing from costs absorbed by others | 0 | 818,188 |
| Other (+/-) | 0 | (5,732,824) |
| Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 0 | 142,007,632 |
| Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23) | 0 | 154,945,255 |
| Net Change | 0 | (12,937,623) |
| Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23) | 0 | 174,190,840 |
| UNEXPENDED APPROPRIATIONS | | |
| Beginning Balances (Includes Funds from Dedicated Collections - See Note 23) | \$ 0 | \$ 106,573,118 |
| Beginning balances, as adjusted | 0 | 106,573,118 |
| Budgetary Financing Sources: | | |
| Appropriations received | 0 | 152,159,574 |
| Appropriations transferred-in/out | 0 | 788,205 |
| Other adjustments (rescissions, etc) | 0 | (3,478,506) |
| Appropriations used | 0 | (146,552,133) |
| Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 0 | 2,917,140 |
| Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23) | 0 | 109,490,258 |
| Net Position | 0 | 283,681,098 |

Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2013 Dedicated Collections | 2013 All Other Funds |
|---|-----------------------------------|-----------------------------|
| | <hr/> | <hr/> |
| CUMULATIVE RESULTS OF OPERATIONS | | |
| Beginning Balances | \$ 19,470 | \$ 174,515,949 |
| 3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23) | 19,470 | 174,515,949 |
| Budgetary Financing Sources: | | |
| Appropriations used | 0 | 148,545,663 |
| Nonexchange revenue | 1,057 | 103,450 |
| Donations and forfeitures of cash and cash equivalents | 16,091 | 0 |
| Transfers-in/out without reimbursement | 0 | (596,005) |
| Other Financing Sources: | | |
| Transfers-in/out without reimbursement (+/-) | (25) | 238,423 |
| Imputed financing from costs absorbed by others | 0 | 747,791 |
| Other (+/-) | 0 | 5,734,948 |
| Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 17,123 | 154,774,270 |
| Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23) | 4,334 | 142,194,018 |
| Net Change | 12,789 | 12,580,252 |
| Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23) | 32,259 | 187,096,201 |
| UNEXPENDED APPROPRIATIONS | | |
| Beginning Balances (Includes Funds from Dedicated Collections - See Note 23) | \$ 0 | \$ 113,050,127 |
| Beginning balances, as adjusted | 0 | 113,050,127 |
| Budgetary Financing Sources: | | |
| Appropriations received | 0 | 154,560,455 |
| Appropriations transferred-in/out | 0 | 704,893 |
| Other adjustments (rescissions, etc) | 0 | (13,196,694) |
| Appropriations used | 0 | (148,545,663) |
| Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 0 | (6,477,009) |
| Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23) | 0 | 106,573,118 |
| Net Position | 32,259 | 293,669,319 |

Department of the Air Force
CONSOLIDATED CHANGES IN NET POSITION-DEDICATED COLLECTIONS
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | <u>2013 Eliminations</u> | <u>2013 Consolidated</u> |
|---|--------------------------|--------------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| Beginning Balances | \$ 0 | \$ 174,535,419 |
| 3. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 23) | 0 | 174,535,419 |
| Budgetary Financing Sources: | | |
| Appropriations used | 0 | 148,545,663 |
| Nonexchange revenue | 0 | 104,507 |
| Donations and forfeitures of cash and cash equivalents | 0 | 16,091 |
| Transfers-in/out without reimbursement | 0 | (596,005) |
| Other Financing Sources: | | |
| Transfers-in/out without reimbursement (+/-) | 0 | 238,398 |
| Imputed financing from costs absorbed by others | 0 | 747,791 |
| Other (+/-) | 0 | 5,734,948 |
| Total Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 0 | 154,791,393 |
| Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 23) | 0 | 142,198,352 |
| Net Change | 0 | 12,593,041 |
| Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 23) | 0 | 187,128,460 |
| UNEXPENDED APPROPRIATIONS | | |
| Beginning Balances (Includes Funds from Dedicated Collections - See Note 23) | \$ 0 | \$ 113,050,127 |
| Beginning balances, as adjusted | 0 | 113,050,127 |
| Budgetary Financing Sources: | | |
| Appropriations received | 0 | 154,560,455 |
| Appropriations transferred-in/out | 0 | 704,893 |
| Other adjustments (rescissions, etc) | 0 | (13,196,694) |
| Appropriations used | 0 | (148,545,663) |
| Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 23) | 0 | (6,477,009) |
| Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 23) | 0 | 106,573,118 |
| Net Position | 0 | 293,701,578 |

Department of the Air Force
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Consolidated | 2013 Consolidated |
|---|------------------------------|------------------------------|
| Program Costs | | |
| Gross Costs | \$ 161,128,771 | \$ 147,150,801 |
| Military Personnel | 35,631,951 | 35,964,780 |
| Operations, Readiness & Support | 50,904,702 | 52,771,687 |
| Procurement | 48,266,092 | 31,706,980 |
| Research, Development, Test & Evaluation | 25,082,132 | 25,449,411 |
| Family Housing & Military Construction | 1,243,894 | 1,257,943 |
| | <hr/> | <hr/> |
| (Less: Earned Revenue) | (6,183,517) | (4,952,448) |
| Net Cost before Losses/ (Gains) from Actuarial Assumption Changes | <hr/> | <hr/> |
| for Military Retirement Benefits | 154,945,254 | 142,198,353 |
| Net Program Costs Including Assumption Changes | 154,945,254 | 142,198,353 |
| | <hr/> | <hr/> |
| Net Cost of Operations | <u><u>\$ 154,945,254</u></u> | <u><u>\$ 142,198,353</u></u> |

General Fund

Fiscal Year 2014

Notes to the Principal Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

| | |
|----------------|--|
| Note 1. | Significant Accounting Policies |
|----------------|--|

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the Air Force in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the Air Force is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The Air Force is unable to implement fully all elements of USGAAP and OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Air Force derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The Air Force continues to implement process and system improvements addressing these limitations.

The Air Force has 12 auditor-identified financial reporting and financial system material weaknesses: (1) Weaknesses in Accounts Receivables Financial Reporting, (2) Weaknesses in Accounts Payable Financial Reporting, (3) Weaknesses in Recording Real Property and Construction-In-Process, (4) Incomplete Existence and Completeness of Government Furnished Equipment, (5) Failure to Use Historical Cost to Value Operating Materials and Supplies, (6) Incomplete Reporting of Contractor Managed and Possessed Operating Materials and Supplies, (7) the Use of an Integrated Financial Management System Not in Compliance with the Federal Financial Management Improvement Act, (8) Environmental Clean-Up Costs Cannot Be Supported, (9) Other Accounting Entries, (10) Failure to Eliminate Intragovernmental Transactions, (11) Failure to Report Program Costs on the Statement of Net Cost, (12) Failure to Reconcile Net Costs to Budget.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947 and operates under the direction, authority, and control of the Secretary of the Air Force. The Air Force's overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to "Aim High...Fly, Fight, Win" in air, space, and cyberspace. The Air Force carries out its mission by adhering to a strategic framework of Core Values consisting of Integrity First, Service Before Self, and Excellence in All We Do. In addition, the Air Force is committed to providing Global Vigilance, Global Reach, and Global Power, while defending and protecting the United States.

1.C. Appropriations and Funds

The Air Force receives appropriations and funds as general, working capital (revolving), trust, special, and deposit funds. The Air Force uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. The Air Force is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for funds from dedicated collections.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not Air Force funds, and as such, are not available for Air Force operations. The Air Force is acting as an agent or a custodian for funds awaiting distribution.

The Air Force is a party to allocation transfers with other federal agencies as a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB. Based on an agreement with OMB, funds for Security Assistance programs are reported separately from Air Force financial statements and notes.

The Air Force receives allocation transfers for EOP (Foreign Military Sales – Military Assistance Program) meeting the OMB exception; however, activities for this fund are reported separately from the DoD financial statements.

The accounts used to prepare the financial statements are categorized as either entity or nonentity. The Air Force accounts consist of resources that are available for use in the operations of the entity. The Air Force is authorized to decide how to use resources in entity accounts or may be legally obligated to use these resources to meet entity obligations. Nonentity accounts, on the other hand, consist of assets that are held by an entity but that are not available for use in the operations of the entity. The following is a list of the major Air Force account numbers and titles (all accounts are entity accounts unless otherwise noted):

| AF Account Number | Title |
|-------------------|---|
| 57 * 0704 | Military Family Housing, Operations and Maintenance (O&M) and Construction, Air Force |
| 57 * 0740 | Military Family Housing (Construction), Air Force |
| 57 * 0743 | Military Family Housing (Construction), Air Force, Recovery Act |
| 57 * 0745 | Military Family Housing, Operations and Maintenance (O&M), Air Force |
| 57 * 0810 | Environmental Restoration, Air Force |
| 57 * 1007 | Medicare Eligible Retiree Health Fund Contributions, Air Force |
| 57 * 1008 | Medicare Eligible Retiree Health Fund Contributions, Air Force Reserve |
| 57 * 1009 | Medicare Eligible Retiree Health Fund Contributions, Air National Guard |
| 57 * 3010 | Aircraft Procurement, Air Force |
| 57 * 3011 | Procurement of Ammunition, Air Force |

| | |
|-------------------------------|---|
| 57 * 3020 | Missile Procurement, Air Force |
| 57 * 3080 | Other Procurement, Air Force |
| 57 * 3300 | Military Construction, Air Force |
| 57 * 3307 | Military Construction, Air Force, Recovery Act |
| 57 * 3400 | Operations and Maintenance (O&M), Air Force |
| 57 * 3500 | Military Personnel, Air Force |
| 57 * 3600 | Research, Development, Testing, and Evaluation (RDT&E), Air Force |
| 57 * 3605 | Research, Development, Testing, and Evaluation (RDT&E), Air Force, Recovery Act |
| 57 * 3700 | Personnel, Air Force Reserve |
| 57 * 3730 | Military Construction, Air Force Reserve |
| 57 * 3740 | Operations and Maintenance (O&M), Air Force Reserve |
| 57 * 3830 | Military Construction, Air National Guard |
| 57 * 3834 | Military Construction, Air National Guard, Recovery Act |
| 57 * 3840 | Operations and Maintenance (O&M), Air National Guard |
| 57 * 3850 | Personnel, Air National Guard |
| 57 X 5095 | Wildlife Conservation, etc., Military Reservations, Air Force |
| 57 X 8418 | Air Force Cadet Fund |
| 57 X 8928 | Air Force General Gift Fund |
| 57 * 3XXX (Incl Nonentity) | Budget Clearing Accounts |
| 57 * 6XXX (Nonentity) | Deposit Fund Accounts |
| 57 **** (Nonentity) | Receipt Accounts |

1.D. Basis of Accounting

The Air Force is unable to meet all full accrual accounting requirements. This is primarily because many of the Air Force's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The Air Force's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Air Force's sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated Air Force level these abnormal balances may not be

evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all Air Force financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, the Air Force's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

In accordance with Statement of Financial Accounting Standards (SFFAS) Number 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financing Accounting," the Air Force recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

The Air Force does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. Some accounts such as civilian pay, military pay, and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by USGAAP.

In the case of Operating Materials & Supplies (OM&S), operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be expensed when consumed.

Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The Air Force continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Air Force cannot accurately identify intragovernmental transactions by customer because the Air Force's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

Imputed Financing represents the costs paid on behalf of the Air Force by another Federal entity. The Air Force recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act; and (3) losses in litigation proceedings.

While the Air Force is unable to fully reconcile intragovernmental transactions with all federal agencies, the Air Force is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal agencies. The DoD's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Air Force sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The Air Force's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Air Force's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, the Air Force's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of DoD which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as "nonentity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Air Force conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Air Force does not separately identify currency fluctuation transactions.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The Air Force manages only military or government specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Air Force's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Air Force holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

Related property includes OM&S and stockpile materiel. The majority of OM&S, with the exception of munitions not held for sale, are valued using the moving average cost method. Munitions not held for sale are valued at standard purchase price. The Air Force uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Air Force uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2014 and FY 2013, the Air Force expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the DoD and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The Air Force determined that the recurring high dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Air Force recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

1.N. Investments in U.S. Treasury Securities

The Air Force reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method obtaining similar results. The Air Force's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Air Force invests in nonmarketable market-based U.S. Treasury securities, which are issued to federal agencies by the U.S. Treasury's Bureau of the Fiscal Service. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

1.O. General Property, Plant and Equipment

In some instances, the Air Force uses the estimated historical cost for valuing equipment. To establish a baseline, the Department accumulated information relating to program funding and associated equipment, equipment useful life, program acquisitions, and disposals. The equipment baseline was

updated using expenditure, acquisition and disposal information. The DoD identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The Air Force General Fund capitalizes General PP&E acquisitions that are \$1 million and greater. The capitalization threshold for information technology equipment, internally developed software and real property is \$250 thousand. These capitalization thresholds apply to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds (\$100 thousand for equipment and \$20 thousand for real property). The DoD also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The DoD depreciates all General PP&E, other than land, on a straight-line basis.

When it is in the best interest of the government, the Air Force provides government property to contractors to complete contract work. The Air Force either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on the Air Force's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires the Air Force to maintain, in its property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards. The Air Force has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The Air Force has not fully implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Air Force records the applicable asset as though it was purchased with an offsetting liability and depreciates it. The Air Force records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Air Force, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by the Air Force are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on the Air Force's Balance Sheet.

The Air Force conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Air Force may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The Air Force has fully implemented this policy.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

1.S. Contingencies and Other Liabilities

The Statement of Federal Financial Accounting Standards (SFFAS) No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Air Force recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The Air Force's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities also arise as a result of anticipated disposal costs for Air Force assets. Consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment," recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on DoD's policy, which is consistent with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. The DoD recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs. The Air Force does not recognize contingent liabilities associated with nonenvironmental disposals due to immateriality.

1.T. Accrued Leave

The Air Force reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The DoD has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Air Force purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Air Force continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections are evidenced by corroborating documentation. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny.

The DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Supported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly. Unsupported undistributed disbursements are recorded as disbursements in transit and reduce nonfederal accounts payable. Unsupported undistributed collections are recorded in nonfederal other liabilities.

1.X. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Air Force and are not recognized on the Balance Sheet. Fiduciary activities are reported on the financial statement note schedules.

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

Not applicable.

Note 2. Nonentity Assets

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|----------------|----------------|
| 1. Intragovernmental Assets | | |
| A. Fund Balance with Treasury | \$ 78,744 | \$ 94,360 |
| B. Accounts Receivable | 0 | 0 |
| C. Other Assets | 0 | 0 |
| D. Total Intragovernmental Assets | \$ 78,744 | \$ 94,360 |
| 2. Nonfederal Assets | | |
| A. Cash and Other Monetary Assets | \$ 77,965 | \$ 83,280 |
| B. Accounts Receivable | 5,341 | 199,800 |
| C. Other Assets | 171,500 | 174,050 |
| D. Total Nonfederal Assets | \$ 254,806 | \$ 457,130 |
| 3. Total Nonentity Assets | \$ 333,550 | \$ 551,490 |
| 4. Total Entity Assets | \$ 306,994,862 | \$ 317,952,238 |
| 5. Total Assets | \$ 307,328,412 | \$ 318,503,728 |

Relevant Information for Comprehension

Nonentity assets are assets for which the Air Force maintains stewardship accountability and reporting responsibility but are not available for the Air Force's normal operations.

Intragovernmental Fund Balance with Treasury represents amounts in Air Force's deposit fund and two suspense fund accounts (Uniformed Services Thrift Savings Plan Suspense and Thrift Savings Plan Suspense) that are not available for Air Force use.

Nonfederal Accounts Receivable include interest receivable that upon collection is remitted to the U.S. Treasury as miscellaneous receipts.

Nonfederal Cash and Other Monetary Assets represent disbursing officers' cash and undeposited collections as reported on the Statement of Accountability (Standard Form 1219). These assets are held by the Air Force Disbursing Officers as agents of the U.S. Treasury. The Nonfederal Cash and Other Monetary assets represent a fiduciary capacity held by Air Force Disbursing Officers as agents for U.S. Treasury and are not available for use in operations.

Nonfederal Other Assets consist of advances to contractors as part of the advance payment pool agreements with the Massachusetts Institute of Technology and other nonprofit institutions. These agreements are used for

United States Air Force

the financing of cost-type contracts with nonprofit educational research institutions for experimental research and development work when several contracts or a series of contracts require financing by advance payments. These funds are not available for use in Air Force operations.

Note 3. Fund Balance with Treasury

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|-----------------------|-----------------------|
| 1. Fund Balances | | |
| A. Appropriated Funds | \$ 102,354,966 | \$ 100,849,781 |
| B. Revolving Funds | 0 | 0 |
| C. Trust Funds | 29,084 | 24,503 |
| D. Special Funds | 2,329 | 2,027 |
| E. Other Fund Types | 370,113 | 94,360 |
| F. Total Fund Balances | <u>\$ 102,756,492</u> | <u>\$ 100,970,671</u> |
| 2. Fund Balances Per Treasury Versus Agency | | |
| A. Fund Balance per Treasury | \$ 102,763,520 | \$ 103,068,205 |
| B. Fund Balance per Agency | 102,756,492 | 100,970,671 |
| 3. Reconciling Amount | <u>\$ 7,028</u> | <u>\$ 2,097,534</u> |

Relevant Information for Comprehension

Other Fund Types primarily consist of deposit funds and receipt accounts. These funds represent receipts held temporarily for distribution to another fund or entity or held as an agent for others.

The Air Force shows a reconciling amount of \$7.0 million with U.S. Treasury, which is comprised of the net value of the following:

(\$19.1) million in allocation transfers from Air Force (known as the Parent Agency) to the Department of Transportation (DoT) (known as the Child Agency). These funds are reported in the Fund Balance with Treasury (FBWT) on the Air Force Trial Balance but are not included in the FBWT at the Treasury of the United States (TUS) via the Governmentwide Accounting System (GWA) because TUS reports these balances under DoT. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.

\$24.4 million in allocation transfers to Air Force (known here as the Child Agency) from other agencies (known as Parent Agencies). These are not reported in the FBWT on the Air Force Trial Balance but they are included in the FBWT at TUS in GWA. The Foreign Military Sales-Military Assistance Program (FMS-MAP), the Department of Agriculture and the Department of Transportation record these balances in their FBWT on their respective Trial Balances. An allocation transfer occurs when funds are appropriated to one federal entity and then that entity transfers the authority to execute its funds to another federal entity.

\$1.7 million in an unavailable receipt account due to it being the Savings Deposit Program (SDP) which is a fiduciary activity. These funds are not reported in the FBWT on the Air Force Trial Balance and are only reported as part of the Fiduciary Cash balances on Footnote 24, however, the balance is included in the FBWT by TUS in GWA.

Status of Fund Balance with Treasury

| As of September 30 | 2014 | | 2013 | |
|--|------|-------------|------|-------------|
| (Amounts in thousands) | | | | |
| 1. Unobligated Balance | | | | |
| A. Available | \$ | 19,843,066 | \$ | 20,253,628 |
| B. Unavailable | | 5,904,448 | | 5,374,821 |
| 2. Obligated Balance not yet Disbursed | \$ | 78,988,540 | \$ | 76,881,017 |
| 3. Nonbudgetary FBWT | \$ | 370,113 | \$ | 425,248 |
| 4. NonFBWT Budgetary Accounts | \$ | (2,349,675) | \$ | (1,964,043) |
| 5. Total | \$ | 102,756,492 | \$ | 100,970,671 |

The Status of FBWT reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT. The items reported as Nonbudgetary FBWT account comprises the FBWT for suspense, deposit and receipt accounts.

NonFBWT Budgetary Accounts reduce the Status of FBWT. The items that comprise the amount reported as NonFBWT receipts are from investments and discounts in U.S. Treasury securities, and unfilled customer orders without advances.

Note 4. Investments and Related Interest

| As of September 30 | 2014 | | | | |
|--------------------|------|---------------------|--------------------------------|-------------------|-------------------------|
| | Cost | Amortization Method | Amortized (Premium) / Discount | Investments , Net | Market Value Disclosure |

(Amounts in thousands)

1. Intragovernmental Securities

A. Nonmarketable, Market-Based

| | | | | | | | | |
|---|----|-----|----|-----|----|-----|----|-----|
| 1. Military Retirement Fund | \$ | 0 | \$ | 0 | \$ | 0 | \$ | 0 |
| 2. Medicare Eligible Retiree Health Care Fund | | 0 | | 0 | | 0 | | 0 |
| 3. US Army Corps of Engineers | | 0 | | 0 | | 0 | | 0 |
| 4. Other Funds | | 954 | | (0) | | 954 | | 954 |
| 5. Total Nonmarketable, Market-Based | | 954 | | 0 | | 954 | | 954 |

B. Accrued Interest

| | | | | | | |
|--|--|-----|--|---|--|---|
| | | (0) | | 0 | | 1 |
|--|--|-----|--|---|--|---|

C. Total Intragovernmental Securities

| | | | | | | | |
|----|-----|----|---|----|-----|----|-----|
| \$ | 954 | \$ | 0 | \$ | 954 | \$ | 955 |
|----|-----|----|---|----|-----|----|-----|

2. Other Investments

A. Total Other Investments

| | | | | | | |
|----|---|----|---|----|---|-----|
| \$ | 0 | \$ | 0 | \$ | 0 | N/A |
|----|---|----|---|----|---|-----|

| As of September 30 | 2013 | | | | |
|--------------------|------|---------------------|--------------------------------|------------------|-------------------------|
| | Cost | Amortization Method | Amortized (Premium) / Discount | Investments, Net | Market Value Disclosure |

(Amounts in thousands)

3. Intragovernmental Securities

A. Nonmarketable, Market-Based

| | | | | | |
|---|-------|--|------|-------|-------|
| 1. Military Retirement Fund | \$ 0 | | \$ 0 | \$ 0 | \$ 0 |
| 2. Medicare Eligible Retiree Health Care Fund | 0 | | 0 | 0 | 0 |
| 3. US Army Corps of Engineers | 0 | | 0 | 0 | 0 |
| 4. Other Funds | 1,081 | | (8) | 1,073 | 1,073 |
| 5. Total Nonmarketable, Market-Based | 1,081 | | (8) | 1,073 | 1,073 |

| | | | | | |
|---------------------|---|--|--|---|---|
| B. Accrued Interest | 4 | | | 4 | 4 |
|---------------------|---|--|--|---|---|

C. Total Intragovernmental Securities

| | | | |
|----------|---------|----------|----------|
| \$ 1,085 | \$ (8) | \$ 1,077 | \$ 1,077 |
|----------|---------|----------|----------|

4. Other Investments

| | | | | |
|----------------------------|------|------|------|-----|
| A. Total Other Investments | \$ 0 | \$ 0 | \$ 0 | N/A |
|----------------------------|------|------|------|-----|

Relevant Information for Comprehension

The U.S. Treasury securities are issued to authorized funds and are an asset to the Air Force and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated is deposited in the U.S. Treasury and used for general Government purposes. Since the Air Force and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government wide financial statements.

The U.S. Treasury securities provide the Air Force with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the Air Force requires redemption of these securities to make expenditures, the Government will finance them from accumulated cash balances, by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government used the same method to finance all other expenditures.

Intragovernmental Securities (Other Funds) primarily represents the Air Force Gift Fund investment in U.S. Treasury Securities.

Note 5. Accounts Receivable

| As of September 30 | 2014 | | |
|--|------------------|--|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| ts in thousands) | | | |
| 1. Intragovernmental Receivables | \$ 538,612 | N/A | \$ 538,612 |
| 2. Nonfederal Receivables (From the Public) | \$ 532,818 | \$ (247,197) | \$ 285,621 |
| 3. Total Accounts Receivable | \$ 1,071,430 | \$ (247,197) | \$ 824,233 |

| As of September 30 | 2013 | | |
|--|------------------|--|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| (Amounts in thousands) | | | |
| 1. Intragovernmental Receivables | \$ 423,363 | N/A | \$ 423,363 |
| 2. Nonfederal Receivables (From the Public) | \$ 568,304 | \$ (306,619) | \$ 261,685 |
| 3. Total Accounts Receivable | \$ 991,667 | \$ (306,619) | \$ 685,048 |

Relevant Information for Comprehension

The accounts receivable represent the Air Force's claim for payment from other entities. The Air Force only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

| | |
|----------------|---------------------|
| Note 6. | Other Assets |
|----------------|---------------------|

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|----------------------|----------------------|
| 1. Intragovernmental Other Assets | | |
| A. Advances and Prepayments | \$ 220,314 | \$ 203,947 |
| B. Other Assets | 0 | 0 |
| C. Total Intragovernmental Other Assets | \$ 220,314 | \$ 203,947 |
| 2. Nonfederal Other Assets | | |
| A. Outstanding Contract Financing Payments | \$ 16,576,105 | \$ 16,172,797 |
| B. Advances and Prepayments | 19,456 | 24,970 |
| C. Other Assets (With the Public) | 171,500 | 174,050 |
| D. Total Nonfederal Other Assets | \$ 16,767,061 | \$ 16,371,817 |
| 3. Total Other Assets | \$ 16,987,375 | \$ 16,575,764 |

Relevant Information for Comprehension

Nonfederal Other Assets (With the Public) is comprised exclusively of advance payment pool agreements with nonprofit educational institutions. These agreements are funded under cost-type contract procedures and are mainly for experimental research and development requirements.

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Federal Government that protect the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and Air Force is not obligated to make payment to the contractor until delivery and acceptance.

The balance of Outstanding Contract Financing Payments includes both \$14.8 billion in contract financing payments and \$1.8 billion in estimated future payments to contractors. These future payments are made to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

Note 7. Cash and Other Monetary Assets

| As of September 30 | 2014 | 2013 |
|--|-----------|-----------|
| (Amounts in thousands) | | |
| 1. Cash | \$ 45,877 | \$ 65,853 |
| 2. Foreign Currency | 32,088 | 17,427 |
| 3. Other Monetary Assets | 0 | 0 |
| 4. Total Cash, Foreign Currency, & Other Monetary Assets | \$ 77,965 | \$ 83,280 |

Relevant Information for Comprehension

The amount reported as cash and foreign currency consists primarily of cash held by Disbursing Officers. The foreign currency amount reported is valued at U.S. Treasury's prevailing exchange rate, which is the most favorable rate available to the Government for foreign exchange transactions. Foreign currency is primarily used to make vendor disbursements and to exchange U.S. dollars for military personnel.

Cash and foreign currency are nonentity assets and, as such, considered restricted assets that are held by the Air Force but are not available for use in its operations. These assets are held by Air Force Disbursing Officers as agents of U.S. Treasury. The total balance of \$78.0 million is restricted.

Note 8. Direct Loan and Loan Guarantees

Not applicable.

| | |
|----------------|---------------------------------------|
| Note 9. | Inventory and Related Property |
|----------------|---------------------------------------|

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|----------------------|----------------------|
| 1. Inventory, Net | \$ 0 | \$ 0 |
| 2. Operating Materiel & Supplies, Net | 56,320,794 | 57,594,470 |
| 3. Stockpile Materiel, Net | 0 | 0 |
| 4. Total | \$ 56,320,794 | \$ 57,594,470 |

Relevant Information for Comprehension**General Composition of OM&S**

The Operating Materials and Supplies (OM&S) include weapon systems spares, ammunition, tactical missiles, aerial target drones, uninstalled aircraft and cruise missile engines, and uninstalled intercontinental ballistic missile motors. Although some of these assets such as spare engines and uninstalled missile motors have an acquisition cost greater than \$1 million, these assets are classified as OM&S and not capitalized. Equipment assets are generally functionally complete and should be valued based on the cost of the top level assembly, to include the cost of the embedded items. Therefore, uninstalled aircraft engines or missile motors are reported as OM&S, while costs for installed engines should be valued as part of the aircraft or missile.

In addition to the account balances shown in Note 9, the federal accounting standard requires disclosure of the amount of OM&S held for future use. Except for an immaterial amount of munitions, the Air Force is not holding any items for future use.

Restrictions on the Use of OM&S

The Air Force does not maintain any OM&S restricted assets.

Decision Criteria for Identifying the Category to Which OM&S Items Are Assigned

The category Held for Use includes all materiel available for issuance. OM&S classified as such is marked within each supply or inventory system.

The category Held for Repair generally includes all economically repairable materiel as defined by the Military Standard Transaction Reporting and Accounting Procedures Manual (DLM 4000.25-2-M). The category Held for Repair represents suspended, unserviceable (but repairable) items recorded at Moving Average Cost (MAC) or standard price.

The category Held as Excess, Obsolete, and Unserviceable includes all materiel that managers determine to be more costly to repair than to replace. Items retained for management purposes which are beyond economic repair are coded "condemned." These items are held until proper disposal can be made. Excess, Obsolete, and Unserviceable are valued at zero. This allowance results in a zero value to the Air Force.

Operating Materiel and Supplies (OM&S) Value

The OM&S data reported on the financial statements are derived from logistics systems designed for materiel management purposes. Some of these systems do not maintain the historical cost data

necessary to comply with the valuation requirements of the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."

In general, the Air Force uses the consumption method of accounting for OM&S, since OM&S is defined in SFFAS No. 3 as materiel that has not yet been issued to the end user. Once issued, the materiel is expensed. According to federal accounting standards, the consumption method of accounting should be used to account for OM&S unless: (1) the amount of OM&S is not significant, (2) OM&S are in the hands of the end user for use in normal operations, or (3) it is cost beneficial to expense OM&S when purchased (purchase method).

Other Air Force Disclosures

In the past, the Air Force provided only minimal OM&S accounting data that can be used to prepare the financial statements but has made considerable strides in improving the systems to provide actual transactions for completing the financial statements. However, in some cases, the data provided still consists of only beginning and ending balances for each of the asset accounts Held for Use; Excess, Obsolete, and Unserviceable; and Held for Repair. Without the required additional data (acquisitions, transfers in, amounts consumed, transfers out, trading partner data, etc.), the Defense Finance and Accounting Service can only report the net change between prior period ending balances and the values reported as current period ending balances.

Inventory, Net

Not applicable.

Operating Materiel and Supplies, Net

| As of September 30 | 2014 | | | Valuation Method |
|--------------------|------------------|-----------------------|-----------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | |

(Amounts in thousands)

1. OM&S

Categories

| | | | | | | | |
|--|-----------|-------------------|-----------|------------------|-----------|-------------------|--------------|
| A. Held for Use | \$ | 41,137,268 | \$ | 0 | \$ | 41,137,268 | SP, LAC, MAC |
| B. Held for Repair | | 15,183,526 | | 0 | | 15,183,526 | SP, LAC, MAC |
| C. Excess, Obsolete, and Unserviceable | | 704,574 | | (704,574) | | 0 | NRV |
| D. Total | \$ | 57,025,368 | \$ | (704,574) | \$ | 56,320,794 | |

| As of September 30 | 2013 | | | Valuation Method |
|--------------------|------------------|-----------------------|-----------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | |

(Amounts in thousands)

1. OM&S

Categories

| | | | | | | | |
|--|-----------|-------------------|-----------|------------------|-----------|-------------------|--------------|
| A. Held for Use | \$ | 43,232,246 | \$ | 0 | \$ | 43,232,246 | SP, LAC, MAC |
| B. Held for Repair | | 14,362,224 | | 0 | | 14,362,224 | SP, LAC, MAC |
| C. Excess, Obsolete, and Unserviceable | | 666,842 | | (666,842) | | 0 | NRV |
| D. Total | \$ | 58,261,312 | \$ | (666,842) | \$ | 57,594,470 | |

Legend for Valuation Methods:

LAC = Latest Acquisition Cost

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

LCM = Lower of Cost or Market

O = Other

MAC = Moving Average Cost

Stockpile Materiel, Net

Not Applicable.

Note 10. General PP&E, Net

| As of September 30 | 2014 | | | | |
|---|---|-----------------|----------------------|---|-------------------|
| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
| (Amounts in thousands) | | | | | |
| 1. Major Asset Classes | | | | | |
| A.Land | N/A | N/A | \$ 432,532 | N/A | \$ 432,532 |
| B.Buildings, Structures, and Facilities | S/L | 20 Or 40 | 77,145,079 | \$ (41,002,201) | 36,142,878 |
| C.Leasehold Improvements | S/L | lease term | 70,456 | (15,995) | 54,461 |
| D.Software | S/L | 2-5 Or 10 | 627,530 | (425,504) | 202,026 |
| E.General Equipment | S/L | Various | 340,270,219 | (251,398,535) | 88,871,684 |
| F.Assets Under Capital Lease | S/L | lease term | 93,898 | (89,198) | 4,700 |
| G. Construction-in- Progress | N/A | N/A | 4,652,318 | N/A | 4,652,318 |
| H.Other | | | 0 | 0 | 0 |
| I. Total General PP&E | | | \$ 423,292,032 | \$ (292,931,433) | \$ 130,360,599 |

As of September
30

2013

Depreciati
on/
Amortizati
on
MethodService
LifeAcquisition
Value(Accumulated Depreciation/
Amortization)Net Book
Value(Amounts in
thousands)**1. Major Asset
Classes**

| | | | | | | | |
|---|-----|------------|----|-------------|-----|---------------|----------------|
| A.Land | N/A | N/A | \$ | 429,420 | N/A | \$ | 429,420 |
| B.Buildings, Structures, and Facilities | S/L | 20 Or 40 | | 75,305,165 | \$ | (39,045,802) | 36,259,363 |
| C.Leasehold Improvements | S/L | lease term | | 66,046 | | (13,013) | 53,033 |
| D.Software | S/L | 2-5 Or 10 | | 627,530 | | (416,173) | 211,357 |
| E.General Equipment | S/L | Various | | 343,972,784 | | (243,968,794) | 100,003,990 |
| F.Assets Under Capital Lease | S/L | lease term | | 93,898 | | (84,504) | 9,394 |
| G. Construction- in- Progress | N/A | N/A | | 5,626,861 | | N/A | 5,626,861 |
| H.Other | | | | 0 | | 0 | 0 |
| I. Total General PP&E | | | \$ | 426,121,704 | \$ | (283,528,286) | \$ 142,593,418 |

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

Heritage Assets and Stewardship Land

| Categories | Measure Quantity | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---------------------|-------------------|-----------|-----------|----------------|
| Buildings and Structures | Each | 6,924 | 53 | 871 | 6,106 |
| Archeological Sites | Each | 2,781 | 337 | 28 | 3,090 |
| Museum Collection Items (Objects, Not Including Fine Art) | Each | 135,278 | 334 | 399 | 135,213 |
| Museum Collection Items (Objects, Fine Art) | Each | 15,473 | 27 | 246 | 15,254 |

(Acres in Thousands)

| Facility Code | Facility Title | Beginning Balance | Additions | Deletions | Ending Balance |
|---------------------------|-----------------------------|-------------------|-----------|-----------|----------------|
| 9110 | Government Owned Land | 1,566 | 0 | 0 | 1,566 |
| 9111 | State Owned Land | 0 | 0 | 0 | 0 |
| 9120 | Withdrawn Public land | 6,269 | 0 | 1 | 6,268 |
| 9130 | Licensed and Permitted Land | 731 | 4 | 0 | 735 |
| 9140 | Public Land | 0 | 0 | 0 | 0 |
| 9210 | Land Easement | 161 | 0 | 0 | 161 |
| 9220 | In-leased Land | 103 | 0 | 0 | 103 |
| 9230 | Foreign Land | 296 | 0 | 0 | 296 |
| Grand Total | | | | | 9,129 |
| TOTAL - All Other Lands | | | | | 2,862 |
| TOTAL – Stewardship Lands | | | | | 6,270 |

Relevant Information for Comprehension

General Property, Plant and Equipment (PP&E)

There are restrictions on the Air Force's ability to dispose of real property (land and buildings) located outside the continental United States.

Due to lack of historical data, in the past the Air Force estimated historical values for capitalized general equipment using current departmental internal records. Currently, the Air Force uses actual acquisition cost for capitalizing general equipment. The Air Force estimates historical values for capitalized general equipment using departmental internal records. The DoD increased capitalization thresholds for PP&E items acquired after September 30, 2013. The new guidelines require capitalization of general equipment (including military equipment) for assets valued at \$1 million or greater. Internally developed software, information technology equipment and real property are capitalized at \$250,000 or greater. Assets purchased before October 1, FY 2014 continue to be capitalized and depreciated using the former thresholds of \$100,000 for equipment, IT and internally developed software and \$20,000 for real property. General PP&E assets are disclosed in the above tables using the new capitalization thresholds. The Air Force is unable at this time to disclose for comparability purposes tables of PP&E calculated using the former capitalization thresholds for assets purchased during FY 2014.

Other Air Force Disclosures

The value of the Air Force's General PP&E real property in the possession of contractors is included in the values reported for the major asset classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property major asset class of Software and Equipment does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The Air Force does not report the value of equipment purchased directly by the contractor. The Inspector General, DoD, and the Air Force are developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes in compliance with generally accepted accounting principles.

Heritage Assets and Stewardship Land

The Air Force's overall mission is to deliver sovereign options for the defense of the United States of America and its global interests to fly, fight, and win in air, space, and cyberspace. As this mission has been executed, Air Force has become a large-scale owner of historic buildings, structures, archeological sites and artifacts, aircraft, other cultural resources, and stewardship land. The protection of the nation's heritage assets and stewardship land is an important aspect of the Air Force's mission.

Heritage Assets are PP&E of historical, natural, cultural, educational or artistic significance (e.g. aesthetic); or with significant architectural characteristics. Heritage Assets and Stewardship Land are resources that protect, restore, enhance, modernize, preserve and sustain mission capability within the Air Force through effective planning and management of natural and cultural resources to guarantee access to air, land, and water. These assets are resources that are managed to provide multiple-use activities for the public benefit. This includes actions to comply with requirements such as federal laws, Executive Orders, policies, final governing standards, and other binding agreements. Air Force policy is to promote and preserve indefinitely the identifiable human, environmental or civic value of these assets.

Stewardship Land represents land rights owned by the Federal Government, but not acquired for, or in connection with, items of General Property, Plant, and Equipment (PP&E). "Acquired for or in connection with" is defined as including land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E. Without exception, all land provided to the Air Force from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use.

The Air Force has 9.1 million acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.

Buildings and Structures

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA), and "The Secretary of Interior's Standards for The Treatment of Historic Properties" by each base's civil engineering group, as part of their overall responsibility. The Air Force reports 6,106 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2014. Installation and Installation Support Team (IST) Cultural Resource Managers (CRMs) reported that 53 structures were determined eligible and 871 were demolished or otherwise deleted as Heritage Assets from AF Real Property records in FY 14. In other words, the total of Heritage Asset buildings and structures decreased by 871 units in FY14 compared to FY13; most were demolitions covered under the 2008 Capehart-Wherry Era Housing, and the 2010 Cold War Era Ammunition Storage Facilities, and Cold War Era Unaccompanied Housing nation-wide programmatic agreements that completed NHPA Section 106 review for these abundant facilities.

Heritage Asset buildings and structures are maintained by each base civil engineering group and are considered to be in good condition. These buildings and structures are subject to NHPA Section 106 review and consultation requirements whenever Air Force undertakings might affect their historic characteristics. Section 106 reviews ensure State Historic Preservation Officers, tribal leaders, and other party concerns are taken into account when Air Force decides to adversely affect Heritage Asset buildings and structures.

Archaeological Sites

Prehistoric and historic archaeological sites that have been identified, evaluated, and determined to be eligible for or are listed on the NRHP in accordance with NHPA Section 110. The Air Force reports 3,090 archeological sites on or eligible for listing on the National Register as of Sep 2014, up 309 from the 2,781 reported for FY 2013. This cohort of archaeological Heritage Assets is a subset of over 20,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories.

Museum Collection Items, Objects

This represents the number of objects which meet the criteria for historical property as defined in Air Force Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the Air Force national historical collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for management of the Air Force's national historic collection. The NMUSAF is fully accredited by the American Association of Museums.

During the period 1 October 2013 – 30 September 2014 there have been 334 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 399 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2014 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well the acquisition of a CV-22B Osprey.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection numbering 1,328 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

The Air Force Art Collection contains original oils, drawing, sketches and sculptures. These paintings were in direct result of the artists visiting bases and operations throughout the Air Force. This represents 23 additions and 137 deletions from the Air Force Art Program. The deletions were Captured German artwork that was transferred back to the Army Art Collection. The Art Program did not include any additions or deletions from the National Museum of the United States Air Force holdings.

The collection is maintained and kept in good condition. Each year during the annual inventory, Air Force Art requests the condition of the paintings as well. Maintenance continues to be a constant.

Differences in heritage assets quantities from the FY 2013 ending to the FY 2014 beginning unit counts resulted from periodic reviews.

Assets Under Capital Lease

| As of September 30 | | 2014 | 2013 |
|--|----|----------|-----------|
| (Amounts in thousands) | | | |
| 1. Entity as Lessee, Assets Under Capital Lease | | | |
| A. Land and Buildings | \$ | 93,898 | \$ 93,898 |
| B. Equipment | | 0 | 0 |
| C. Accumulated Amortization | | (89,198) | (84,504) |
| D. Total Capital Leases | \$ | 4,700 | \$ 9,394 |

| | |
|-----------------|---|
| Note 11. | Liabilities Not Covered by Budgetary Resources |
|-----------------|---|

| As of September 30 | 2014 | 2013 |
|--|----------------------|----------------------|
| (Amounts in thousands) | | |
| 1. Intragovernmental Liabilities | | |
| A. Accounts Payable | \$ 0 | \$ 0 |
| B. Debt | 0 | 0 |
| C. Other | 341,550 | 298,812 |
| D. Total Intragovernmental Liabilities | \$ 341,550 | \$ 298,812 |
| 2. Nonfederal Liabilities | | |
| A. Accounts Payable | \$ 4,924 | \$ (112,960) |
| B. Military Retirement and Other Federal Employment Benefits | 1,160,018 | 1,191,254 |
| C. Environmental Liabilities | 7,047,453 | 7,556,279 |
| D. Other Liabilities | 2,920,835 | 3,208,834 |
| E. Total Nonfederal Liabilities | \$ 11,133,230 | \$ 11,843,407 |
| 3. Total Liabilities Not Covered by Budgetary Resources | \$ 11,474,780 | \$ 12,142,219 |
| 4. Total Liabilities Covered by Budgetary Resources | \$ 12,172,534 | \$ 12,659,928 |
| 5. Total Liabilities | \$ 23,647,314 | \$ 24,802,147 |

Relevant Information for Comprehension

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided.

The material amounts and sensitive areas included in Total Liabilities Not Covered by Budgetary Resources are categorized as not covered because there is no current or immediate appropriation available for liquidation. These liabilities will require resources funded from future year appropriations. The Air Force fully expects to receive the necessary resources to cover these liabilities in future years.

Other Intragovernmental Liabilities are primarily comprised of Federal Employees' Compensation Act (FECA) liabilities to the Department of Labor and other unfunded employment related liabilities.

Other Nonfederal Liabilities are primarily comprised of the amounts recorded for unpaid leave earned to which an employee is entitled upon separation and for contingent liabilities which are probable and measurable and will require resources funded from future years' appropriations.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of the amount recorded by employer agencies for the actuarial present value of future FECA benefits provided to federal employees or their beneficiaries as a result of work related deaths, disability, or occupational disease. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

The abnormal balance in Nonfederal Liabilities Accounts Payable of \$112 million can be attributed mainly to abnormal balances reported for accounts payable for cancelled appropriations for Operations and Maintenance, Aircraft Procurement, and Research, Development, Test, and Evaluation.

| | |
|-----------------|-------------------------|
| Note 12. | Accounts Payable |
|-----------------|-------------------------|

| As of September 30 | 2014 | | |
|--------------------|------------------|--|-------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |

(Amounts in thousands)

| | | | | | | |
|--|-----------|------------------|-----------|--------------|-----------|------------------|
| 1. Intragovernmental Payables | \$ | 2,065,786 | \$ | N/A | \$ | 2,065,786 |
| 2. Nonfederal Payables (to the Public) | | 3,339,180 | | (11) | | 3,339,169 |
| 3. Total | \$ | 5,404,966 | \$ | (11) | \$ | 5,404,955 |

| As of September 30 | 2013 | | |
|--------------------|------------------|--|-------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |

(Amounts in thousands)

| | | | | | | |
|--|-----------|------------------|-----------|--------------|-----------|------------------|
| 1. Intragovernmental Payables | \$ | 2,195,768 | \$ | N/A | \$ | 2,195,768 |
| 2. Nonfederal Payables (to the Public) | | 3,210,995 | | (16) | | 3,210,979 |
| 3. Total | \$ | 5,406,763 | \$ | (16) | \$ | 5,406,747 |

Relevant Information for Comprehension

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by Air Force. The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with intra-agency seller-side accounts receivable. Accounts Payable were adjusted by accruing additional accounts payable and expenses.

The \$11.6 thousand abnormal balance in Interest, Penalties, and Administrative Fees for FY 2014 and the \$16.3 abnormal balance from FY 2013 stem from transactions in Air Force Active Operations & Maintenance appropriations for base support and tactical intelligences/special activities. The root cause of the abnormal has been identified to be related to refund receivables postings and a resolution will be researched and implemented by 2nd Quarter FY 2015.

| | |
|-----------------|-------------|
| Note 13. | Debt |
|-----------------|-------------|

As of September 30

2014

Beginning Balance

Net Borrowing

Ending Balance

(Amounts in thousands)

1. Agency Debt**(Intragovernmental)**

| | | | | | | |
|---------------------------------------|----|---|----|---|----|---|
| A. Debt to the Treasury | \$ | 0 | \$ | 0 | \$ | 0 |
| B. Debt to the Federal Financing Bank | | 0 | | 0 | | 0 |
| C. Total Agency Debt | \$ | 0 | \$ | 0 | \$ | 0 |

2. Total Debt

| | | | | | |
|----|---|----|---|----|---|
| \$ | 0 | \$ | 0 | \$ | 0 |
|----|---|----|---|----|---|

As of September 30

2013

Beginning Balance

Net Borrowing

Ending Balance

(Amounts in thousands)

1. Agency Debt**(Intragovernmental)**

| | | | | | | |
|---------------------------------------|----|---|----|---|----|---|
| A. Debt to the Treasury | \$ | 0 | \$ | 0 | \$ | 0 |
| B. Debt to the Federal Financing Bank | | 0 | | 0 | | 0 |
| C. Total Agency Debt | \$ | 0 | \$ | 0 | \$ | 0 |

2. Total Debt

| | | | | | |
|----|---|----|---|----|---|
| \$ | 0 | \$ | 0 | \$ | 0 |
|----|---|----|---|----|---|

| | |
|-----------------|---|
| Note 14. | Environmental and Disposal Liabilities |
|-----------------|---|

As of September 30

2014

2013

(Amounts in thousands)

1. Environmental Liabilities--Nonfederal

A. Accrued Environmental Restoration Liabilities

| | | | | |
|---|----|-----------|----|-----------|
| 1. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR) | \$ | 4,765,447 | \$ | 5,085,673 |
| 2. Active Installations—Military Munitions Response Program (MMRP) | | 356,933 | | 491,835 |
| 3. Formerly Used Defense Sites—IRP and BD/DR | | 0 | | 0 |
| 4. Formerly Used Defense Sites--MMRP | | 0 | | 0 |

B. Other Accrued Environmental Liabilities—Non-BRAC

| | | | | |
|---|--|-----------|--|-----------|
| 1. Environmental Corrective Action | | 14,722 | | 14,722 |
| 2. Environmental Closure Requirements | | 1,253,417 | | 1,253,417 |
| 3. Environmental Response at Operational Ranges | | 0 | | 0 |
| 4. Asbestos | | 467,582 | | 467,582 |
| 5. Non-Military Equipment | | 34,175 | | 34,175 |
| 6. Other | | 0 | | 0 |

C. Base Realignment and Closure Installations

| | | | | |
|---|--|-----------|--|-----------|
| 1. Installation Restoration Program | | 1,158,192 | | 1,274,659 |
| 2. Military Munitions Response Program | | 513 | | 3,142 |
| 3. Environmental Corrective Action / Closure Requirements | | 48,191 | | 0 |
| 4. Asbestos | | 6,790 | | 0 |
| 5. Non-Military Equipment | | 0 | | 0 |
| 6. Other | | 0 | | 0 |

As of September 30

2014

2013

D. Environmental Disposal for Military**Equipment / Weapons Programs****1. Nuclear Powered Military Equipment /
Spent Nuclear Fuel**

0

0

**2. Non-Nuclear Powered Military
Equipment**

36,402

36,402

3. Other Weapons Systems

0

0

E. Chemical Weapons Disposal Program**1. Chemical Demilitarization - Chemical
Materials Agency (CMA)**

0

0

**2. Chemical Demilitarization -
Assembled Chemical Weapons
Alternatives (ACWA)**

0

0

3. Other

0

0

2. Total Environmental Liabilities

\$

8,142,364

\$

8,661,607

Relevant Information for Comprehension**Other Information Related to Environmental Liabilities**

An environmental liability is a probable and measurable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. The Air Force acknowledges that liabilities can change for environmental cleanup costs to include

(1) costs associated with environmental restoration of sites funded under the Air Force portion of the Defense Environmental Restorations Program (DERP);

(2) corrective actions funded with other than DERP, Base Realignment and Closure (BRAC); and

(3) environmental costs associated with future closure or disposal of facilities, equipment, asbestos, and weapon systems. These costs include researching and determining the existence of hazardous waste; removing, containing, and/or disposing of hazardous waste from property; or material and property that consist of hazardous waste at the time of shutdown or disposal of the asset. Cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs related to Air Force operations that result in hazardous waste.

Applicable Laws and Regulations of Cleanup, Closure, and Disposal Requirements.

The Air Force is required to clean up contamination resulting from past waste disposal practices, leaks, spills and other past activity, which has created a public human health or environmental risk. Air Force does this in coordination with regulatory agencies and, if applicable, with other responsible parties. The Air Force is also required to recognize closure, post closure and disposal costs for its Property, Plant and Equipment (PP&E) and environmental corrective action costs for current operations. The Air Force is responsible for tracking and reporting all required environmental information related to environmental restoration and corrective action, closure and disposal costs of PP&E, and environmental costs related to BRAC actions that have taken place in prior years. Applicable laws and regulations for cleanup requirements include the following:

Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Superfund
Amendments and Reauthorization Act (SARA)
Clean Water Act
Safe Drinking Water Act Clean Air Act
Resource Conservation and Recovery Act (RCRA) Toxic Substances Control Act (TSCA)
Medical Waste Tracking Act Atomic Energy Act
Nuclear Waste Policy Act
Low Level Radioactive Waste Policy Amendments Act
DoDI 4715.08, Remediation of Environmental Contamination Outside the United States

Types of Environmental Liabilities Identified

The Air Force has environmental liabilities for clean-up requirements for active installations: Installation Restoration Program, Building Demolition and Debris Removal, Military Munitions Response Program, and Environmental Corrective Action. The Air Force also has environmental liabilities for cleanup requirements at installations closed under BRAC. Finally, the Air Force has identified environmental liabilities for closure and disposal of Property, Plant And Equipment (PP&E) to include real property, general equipment, asbestos, and weapon systems. All clean up occurs in coordination with regulatory agencies, other responsible parties, and current property owners.

The Air Force reports a \$0 balance for line items where another DoD Entity serves as DoD Executive Agent. Executive agents are responsible for identifying funding requirements and disclosing financial information regarding the progress of this program. The United States Army Corps of Engineers is the Executive agent for Formerly Used Defense Sites. The Department of the Navy is the Executive Agent for environmental liabilities due to Nuclear Powered Military Equipment and Spent Nuclear Fuel, and the Department of the Army is the Executive Agent for environmental liabilities related to the chemical weapons program.

Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Air Force uses engineering estimates and independently validated models to estimate environmental cleanup costs. The models are developed within the Remedial Action Cost Engineering Requirements application, or a historic comparable project, a specific bid, or an independent government cost estimate is referenced for the current project. The Air Force validates the models in accordance with DoD Instruction 5000.61 and uses the models to estimate environmental cleanup costs based on data received during a preliminary assessment and initial site investigation. Except for OEL and ME/WP, the Air Force primarily uses engineering estimates after obtaining data during the remedial investigation/feasibility phase of the environmental project. The Air Force has already expensed the costs for cleanup associated with General PP&E placed into service prior to October 1, 1997, unless the government intends to recover costs through user charges. If the government recovers costs through user charges, the Air Force expenses cleanup costs associated with that portion of the asset life that has passed since the General PP&E entered into service. The Air Force systematically recognizes the remaining cost over the life of the assets. The unrecognized portion of the estimated total cleanup costs associated with general property, plant, and equipment is \$373 million. Once the environmental cleanup cost estimates are complete, Air Force will comply with accounting standards to assign costs to current operating periods. The Air Force Accrued Environmental Restoration Liability is accounted for as a self-contained program. All direct and indirect costs of the program are captured and reported. The Air Force systematically recognizes the remaining cost over the life of the assets.

The accounting standards also require environmental liabilities recognized for closure and disposal requirements. Air Force has closure requirements or disposal liabilities at active installations. Closure and disposal liabilities for real property (including landfills), asbestos, general equipment and weapon systems are estimated for the applicable inventory of real property, general equipment and weapon systems. Air Force uses a set of historical disposal factors to estimate the environmental disposal liability for each asset and the estimated closure and monitoring cost. The current liability for these classes of assets is determined from the related disposal programs including the resources expected to be expended in the next year from prior and future budgets.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

DoDI 4715.08, Remediation of Environmental Contamination Outside the United States, released November 2013, placed additional limits on required and authorized remedial actions. This will likely result in a decreased amount of funding requirements for cleanup costs overseas in future years.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities

The environmental liabilities for the Air Force are based on accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. The actual results may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimate parameters.

Other Disclosures:

The total Air Force BRAC environmental liabilities decreased from FY13 to FY14 due to the following environmental restoration activities: the application of BRAC funding towards accelerated site cleanup/closure at several installations, and the execution of Performance Based Remediation (PBR) contracts for the remaining BRAC bases. This was primarily due to a site evaluation resulting in reallocation of site restoration costs that were directly attributable to environmental cleanup but previously captured under management. The BRAC program is reporting a liability on the Environmental Corrective Action line due to identifying the potential release of Perfluorinated compounds (emerging contaminants) at suspected crash/spill non-site associated areas at 33 installations. AF BRAC is reporting a liability on the Asbestos line item due to discovery of asbestos requiring abatement at former Chanute AFB and former Brooks City Base. Although individual environmental liabilities increased at several installations, overall environmental liabilities decreased year over year.

Cleanup costs associated with friable versus nonfriable asbestos.

The Air Force's tangible property, plant, and equipment contains nonfriable asbestos. At this time the Air Force is unable to reasonably estimate the clean-up costs but is working to estimate these costs by 4th Quarter FY 2015.

Note 15. Other Liabilities

(Amounts in thousands)

| | 2014 | | |
|--|-------------------|----------------------|--------------|
| | Current Liability | Noncurrent Liability | Total |
| 1. Intragovernmental | | | |
| A. Advances from Others | \$ 824,878 | \$ 0 | \$ 824,878 |
| B. Deposit Funds and Suspense | | | |
| Account Liabilities | 291,367 | 0 | 291,367 |
| C. Disbursing Officer Cash | 251,110 | 0 | 251,110 |
| D. Judgment Fund Liabilities | 78,793 | 0 | 78,793 |
| E. FECA Reimbursement to the | | | |
| Department of Labor | 105,143 | 126,444 | 231,587 |
| F. Custodial Liabilities | 0 | 3,695 | 3,695 |
| G. Employer Contribution and | | | |
| Payroll Taxes Payable | 49,875 | 0 | 49,875 |
| H. Other Liabilities | 31,338 | 0 | 31,338 |
| I. Total Intragovernmental Other Liabilities | \$ 1,632,504 | \$ 130,139 | \$ 1,762,643 |
| 2. Nonfederal | | | |
| A. Accrued Funded Payroll and | | | |
| Benefits | \$ 1,811,396 | \$ 0 | \$ 1,811,396 |
| B. Advances from Others | 82,212 | 0 | 82,212 |
| C. Deferred Credits | 0 | 0 | 0 |
| D. Deposit Funds and Suspense | | | |
| Accounts | 78,746 | 0 | 78,746 |
| E. Temporary Early Retirement | | | |
| Authority | 0 | 0 | 0 |
| F. Nonenvironmental Disposal | | | |
| Liabilities | | | |
| (1) Military Equipment | | | |
| (Nonnuclear) | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 |
| (3) Conventional Munitions | | | |
| Disposal | 0 | 0 | 0 |
| H. Capital Lease Liability | 1,836 | 6,535 | 8,371 |
| I. Contract Holdbacks | 238,905 | 0 | 238,905 |
| J. Employer Contribution and | | | |
| Payroll Taxes Payable | 232,018 | 0 | 232,018 |
| K. Contingent Liabilities | 0 | 2,111,257 | 2,111,257 |
| L. Other Liabilities | 135 | 0 | 135 |
| M. Total Nonfederal Other Liabilities | 5,055,329 | 2,117,792 | 7,173,121 |
| 3. Total Other Liabilities | 6,687,833 | 2,247,931 | 8,935,764 |

As of September 30

| | 2013 | | |
|--|-------------------|----------------------|-------|
| | Current Liability | Noncurrent Liability | Total |

(Amounts in thousands)

1. Intragovernmental

| | | | |
|--|--------------|------------|--------------|
| A. Advances from Others | \$ 926,299 | \$ 0 | \$ 926,299 |
| B. Deposit Funds and Suspense Account Liabilities | 330,886 | 0 | 330,886 |
| C. Disbursing Officer Cash | 263,290 | 0 | 263,290 |
| D. Judgment Fund Liabilities | 19,185 | 0 | 19,185 |
| E. FECA Reimbursement to the Department of Labor | 110,965 | 131,294 | 242,259 |
| F. Custodial Liabilities | 0 | 193,840 | 193,840 |
| G. Employer Contribution and Payroll Taxes Payable | 42,655 | 0 | 42,655 |
| H. Other Liabilities | 38,459 | 0 | 38,459 |
| I. Total Intragovernmental Other Liabilities | \$ 1,731,739 | \$ 325,134 | \$ 2,056,873 |

2. Nonfederal

| | | | |
|--|--------------|--------------|--------------|
| A. Accrued Funded Payroll and Benefits | \$ 1,964,495 | \$ 0 | \$ 1,964,495 |
| B. Advances from Others | 53,442 | 0 | 53,442 |
| C. Deferred Credits | 0 | 0 | 0 |
| D. Deposit Funds and Suspense Accounts | 94,362 | 0 | 94,362 |
| E. Temporary Early Retirement Authority | 0 | 0 | 0 |
| F. Nonenvironmental Disposal Liabilities | | | |
| (1) Military Equipment (Nonnuclear) | 0 | 0 | 0 |
| (2) Excess/Obsolete Structures | 0 | 0 | 0 |
| (3) Conventional Munitions Disposal | 0 | 0 | 0 |
| G. Accrued Unfunded Annual Leave | 2,643,477 | 0 | 2,643,477 |
| H. Capital Lease Liability | 1,870 | 14,312 | 16,182 |
| I. Contract Holdbacks | 311,634 | 0 | 311,634 |
| J. Employer Contribution and Payroll Taxes Payable | 93,188 | 0 | 93,188 |
| K. Contingent Liabilities | 0 | 2,305,794 | 2,305,794 |
| L. Other Liabilities | 264 | 0 | 264 |
| M. Total Nonfederal Other Liabilities | \$ 5,162,732 | \$ 2,320,106 | \$ 7,482,838 |

| | | | |
|-----------------------------------|---------------------|---------------------|---------------------|
| 3. Total Other Liabilities | \$ 6,894,471 | \$ 2,645,240 | \$ 9,539,711 |
|-----------------------------------|---------------------|---------------------|---------------------|

Capital Lease Liability

As of September 30

| 2014 | | | |
|--------------------|-----------|-------|-------|
| Asset Category | | | |
| Land and Buildings | Equipment | Other | Total |

(Amounts in thousands)

1. Future Payments Due

| | | | | |
|---|----------|------|------|----------|
| A. 2015 | 8,688 | 0 | 0 | 8,688 |
| B. 2016 | 0 | 0 | 0 | 0 |
| C. 2017 | 0 | 0 | 0 | 0 |
| D. 2018 | 0 | 0 | 0 | 0 |
| E. 2019 | 0 | 0 | 0 | 0 |
| F. After 5 Years | 0 | 0 | 0 | 0 |
| G. Total Future Lease Payments Due | \$ 8,688 | \$ 0 | \$ 0 | \$ 8,688 |
| H. Less: Imputed Interest Executory Costs | 317 | 0 | 0 | 317 |
| I. Net Capital Lease Liability | \$ 8,371 | \$ 0 | \$ 0 | \$ 8,371 |

2. Capital Lease Liabilities Covered by Budgetary Resources \$ 8,371

3. Capital Lease Liabilities Not Covered by Budgetary Resources \$ 0

As of September 30

| 2013 | | | |
|--------------------|-----------|-------|-------|
| Asset Category | | | |
| Land and Buildings | Equipment | Other | Total |

(Amounts in thousands)

1. Future Payments Due

| | | | | |
|---|-----------|------|------|-----------|
| A. 2014 | 8,688 | 0 | 0 | 8,688 |
| B. 2015 | 8,688 | 0 | 0 | 8,688 |
| C. 2016 | 0 | 0 | 0 | 0 |
| D. 2017 | 0 | 0 | 0 | 0 |
| E. 2018 | 0 | 0 | 0 | 0 |
| F. After 5 Years | 0 | 0 | 0 | 0 |
| G. Total Future Lease Payments Due | \$ 17,376 | \$ 0 | \$ 0 | \$ 17,376 |
| H. Less: Imputed Interest Executory Costs | 1,194 | 0 | 0 | 1,194 |
| I. Net Capital Lease Liability | \$ 16,182 | \$ 0 | \$ 0 | \$ 16,182 |

2. Capital Lease Liabilities Covered by Budgetary Resources \$ 16,182

3. Capital Lease Liabilities Not Covered by Budgetary Resources \$ 0

Relevant Information for Comprehension

Intragovernmental Other Liabilities represent government contributions for employee benefits and unemployment compensation.

Nonfederal Other Liabilities reflect accrued moving allowance and miscellaneous expenses to contractors.

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Deposit funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand, cash on deposit at designated depositories, cash in the hands of deputy disbursing officers, cashiers and agents, negotiable instruments on hand, etc.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where Air Force is acting on behalf of another Federal entity.

Contingent Liabilities include contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. It is DoD policy that these rights should not be misconstrued as rights of ownership. The Air Force is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Air Force has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency.

| | |
|-----------------|--------------------------------------|
| Note 16. | Commitments and Contingencies |
|-----------------|--------------------------------------|

The Air Force is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

The Air Force has accrued contingent liabilities for legal actions where the Secretary of the Air Force General Counsel (SAF/GC) considers an adverse decision probable and the amount of loss measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Air Force records contingent liabilities in Note 15, Other Liabilities.

Claims and litigation from Civil Law having a reasonably possible liability are estimated at \$219.9 million. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim. Since monetary judgments paid to civil litigants come from a judgment fund administrated by U.S. Treasury, it is uncertain that claims will become a liability to the Air Force.

The amounts disclosed for litigation claims and assessments are fully supportable and must agree with Force's legal representation letters and management summary schedule.

The amount of obligations related to cancelled appropriations for which the reporting entity has a contractual commitment for payment is \$951.0 million.

The Air Force is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, the Air Force has limited automated system processes by which it captures or assesses these potential liabilities; therefore, the amounts reported may not fairly present Air Force commitments and contingencies.

The estimated probable liability amount of \$2.0 billion was recognized in Note 15 as contingent liabilities.

In addition, Air Force recognized the total estimated probable liability for claims and litigation against the Air Force, handled by the Civil Law and Litigation Directorate, as of September 30, 2014, valued at \$310.7 million, included in Nonfederal Contingent Liabilities. As of September 30, 2014, the Air Force was party to 2,051 claims and litigation actions. This liability dollar amount recorded in the financial statements is an estimate based on the weighted average payout rate for the previous three years. There are only two types of cases where U.S. Treasury will seek reimbursements from the affected agency, the Contract Dispute Act cases and select Federal Government personnel disciplinary matters.

The SAF/GC developed the estimating methodology for the contingent liabilities recognized in Note 15.

In cases where SAF/GC disclosed that a judgment has been awarded against the Air Force, these amounts were reported on the Balance Sheet and within Note 15.

| | |
|-----------------|--|
| Note 17. | Military Retirement and Other Federal Employment Benefits |
|-----------------|--|

As of September 30

2014

Liabilities

(Less: Assets Available to Pay
Benefits)

Unfunded Liabilities

(Amounts in thousands)

1. Pension and Health Benefits

| | | | | | | |
|---|----|---|----|---|----|---|
| A. Military Retirement Pensions | \$ | 0 | \$ | 0 | \$ | 0 |
| B. Military Pre Medicare-Eligible Retiree Health Benefits | | 0 | | 0 | | 0 |
| C. Military Medicare-Eligible Retiree Health Benefits | | 0 | | 0 | | 0 |
| D. Total Pension and Health Benefits | \$ | 0 | \$ | 0 | \$ | 0 |

2. Other Benefits

| | | | | | | |
|--|----|-----------|----|---------|----|-----------|
| A. FECA | \$ | 1,160,018 | \$ | 0 | \$ | 1,160,018 |
| B. Voluntary Separation Incentive Programs | | 0 | | 0 | | 0 |
| C. DoD Education Benefits Fund | | 0 | | 0 | | 0 |
| D. Other | | 4,213 | | (4,213) | | 0 |
| E. Total Other Benefits | \$ | 1,164,231 | \$ | (4,213) | \$ | 1,160,018 |

3. Total Military Retirement and Other Federal Employment Benefits:

| | | | | | |
|----|-----------|----|---------|----|-----------|
| \$ | 1,164,231 | \$ | (4,213) | \$ | 1,160,018 |
|----|-----------|----|---------|----|-----------|

| As of September 30 | 2013 | | | |
|--|---------------------|--|----------------------|---|
| | Liabilities | (Less: Assets Available to Pay Benefits) | Unfunded Liabilities | |
| (Amounts in thousands)(Amounts in thousands) | | | | |
| 1. Pension and Health Benefits | | | | |
| A. Military Retirement Pensions | \$ 0 | \$ 0 | \$ 0 | 0 |
| B. Military Pre Medicare-Eligible Retiree Health Benefits | 0 | | 0 | 0 |
| C. Military Medicare-Eligible Retiree Health Benefits | 0 | | 0 | 0 |
| D. Total Pension and Health Benefits | \$ 0 | \$ 0 | \$ 0 | 0 |
| 2. Other Benefits | | | | |
| A. FECA | \$ 1,191,253 | \$ 0 | \$ 1,191,253 | |
| B. Voluntary Separation Incentive Programs | 0 | 0 | 0 | 0 |
| C. DoD Education Benefits Fund | 0 | 0 | 0 | 0 |
| D. Other | 2,829 | (2,829) | | 0 |
| E. Total Other Benefits | \$ 1,194,082 | \$ (2,829) | \$ 1,191,253 | |
| 3. Total Military Retirement and Other Federal Employment Benefits: | \$ 1,194,082 | \$ (2,829) | \$ 1,191,253 | |

Relevant Information for Comprehension

Programs for which actuarial benefits are computed include the Federal Employees' Compensation Act (FECA); the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases; and a component for incurred but not reported claims.

FECA liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds.

Interest rate assumptions utilized for discounting were as follows:

Discount Rates

3.455% in Year 1

3.455% in Year 2

and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors [Cost of Living Adjustment (COLA)] and medical inflation factors [Consumer Price Index Medical (CPIM)] were applied to the calculation of projected future benefits. The

actual rates for these factors for the charge-back year (CBY) 2014 were also used to adjust the methodology's historical payments to current-year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBYs were as follows:

| <u>CBY</u> | <u>COLA</u> | <u>CPIM</u> |
|------------|-------------|-------------|
| 2014 | N/A | N/A |
| 2015 | 1.73% | 2.93% |
| 2016 | 2.17% | 3.76% |
| 2017 | 2.13% | 3.86% |
| 2018 | 2.23% | 3.90% |
| 2019 | 2.30% | 3.90% |

and thereafter

The model's resulting projections were analyzed to ensure that the estimates were reliable. Analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2014 to the average pattern observed during the most current three charge-back years, and (4) a comparison of the estimated liability per case in FY 2014 projection to the average pattern for the projections of the most recent three years.

The Air Force's actuarial liability for workers' compensation benefits is developed and provided by Department of Labor at the end of each fiscal year. There is no change on a quarterly basis.

Other Federal Employment Benefits is comprised of additional post employment benefits due and payable to military personnel.

Note 18. General Disclosures Related to the Statement of Net Cost

Intragovernmental Costs and Exchange Revenue

| As of September 30 | 2014 | 2013 |
|--|----------------------|----------------------|
| (Amounts in thousands) | | |
| Military Retirement Benefits | | |
| 1. Gross Cost | | |
| A. Intragovernmental Cost | \$ 0 | \$ 0 |
| B. Nonfederal Cost | 0 | 0 |
| C. Total Cost | <u>\$ 0</u> | <u>\$ 0</u> |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | \$ 0 | \$ 0 |
| B. Nonfederal Revenue | 0 | 0 |
| C. Total Revenue | <u>\$ 0</u> | <u>\$ 0</u> |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | <u>\$ 0</u> | <u>\$ 0</u> |
| Total Net Cost | <u>\$ 0</u> | <u>\$ 0</u> |
| Civil Works | | |
| 1. Gross Cost | | |
| A. Intragovernmental Cost | \$ 0 | \$ 0 |
| B. Nonfederal Cost | 0 | 0 |
| C. Total Cost | <u>\$ 0</u> | <u>\$ 0</u> |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | \$ 0 | \$ 0 |
| B. Nonfederal Revenue | 0 | 0 |
| C. Total Revenue | <u>\$ 0</u> | <u>\$ 0</u> |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | <u>\$ 0</u> | <u>\$ 0</u> |
| Total Net Cost | <u>\$ 0</u> | <u>\$ 0</u> |
| Military Personnel | | |
| 1. Gross Cost | | |
| A. Intragovernmental Cost | \$ 8,220,497 | \$ 8,243,590 |
| B. Nonfederal Cost | 27,411,454 | 27,721,190 |
| C. Total Cost | <u>\$ 35,631,951</u> | <u>\$ 35,964,780</u> |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | \$ (410,066) | \$ (470,069) |
| B. Nonfederal Revenue | (80,556) | 8,654 |
| C. Total Revenue | <u>\$ (490,622)</u> | <u>\$ (461,415)</u> |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | <u>\$ 0</u> | <u>\$ 0</u> |
| Total Net Cost | <u>\$ 35,141,329</u> | <u>\$ 35,503,365</u> |

Operations, Readiness & Support

| | | | |
|---|----|-------------|----------------|
| 1. Gross Cost | | | |
| A. Intragovernmental Cost | \$ | (1,129,063) | \$ (1,763,402) |
| B. Nonfederal Cost | | 52,033,765 | 54,535,089 |
| C. Total Cost | \$ | 50,904,702 | \$ 52,771,687 |
| 2. Earned Revenue | | | |
| A. Intragovernmental Revenue | \$ | (526,397) | \$ (604,350) |
| B. Nonfederal Revenue | | (580,531) | (284,326) |
| C. Total Revenue | \$ | (1,106,928) | \$ (888,676) |
| 3. Losses/(Gains) from Actuarial Assumption | | | |
| Changes for Military Retirement Benefits | \$ | 0 | \$ 0 |
| Total Net Cost | \$ | 49,797,774 | \$ 51,883,011 |

Procurement

| | | | |
|---|----|-------------|---------------|
| 1. Gross Cost | | | |
| A. Intragovernmental Cost | \$ | 18,006,838 | \$ 18,464,152 |
| B. Nonfederal Cost | | 30,259,254 | 13,242,828 |
| C. Total Cost | \$ | 48,266,092 | \$ 31,706,980 |
| 2. Earned Revenue | | | |
| A. Intragovernmental Revenue | \$ | (347,996) | \$ (283,343) |
| B. Nonfederal Revenue | | (1,909,668) | (646,104) |
| C. Total Revenue | \$ | (2,257,664) | \$ (929,447) |
| 3. Losses/(Gains) from Actuarial Assumption | | | |
| Changes for Military Retirement Benefits | \$ | 0 | \$ 0 |
| Total Net Cost | \$ | 46,008,428 | \$ 30,777,533 |

Research, Development, Test & Evaluation

| | | | |
|---|----|-------------|----------------|
| 1. Gross Cost | | | |
| A. Intragovernmental Cost | \$ | 10,270,248 | \$ 10,506,768 |
| B. Nonfederal Cost | | 14,811,884 | 14,942,643 |
| C. Total Cost | \$ | 25,082,132 | \$ 25,449,411 |
| 2. Earned Revenue | | | |
| A. Intragovernmental Revenue | \$ | (2,332,701) | \$ (2,610,040) |
| B. Nonfederal Revenue | | 7,336 | (62,677) |
| C. Total Revenue | \$ | (2,325,365) | \$ (2,672,717) |
| 3. Losses/(Gains) from Actuarial Assumption | | | |
| Changes for Military Retirement Benefits | \$ | 0 | \$ 0 |
| Total Net Cost | \$ | 22,756,767 | \$ 22,776,694 |

Family Housing & Military Construction

| | | |
|---|-----------|-----------|
| 1. Gross Cost | | |
| A. Intragovernmental Cost | 79,435 | 135,514 |
| B. Nonfederal Cost | 1,164,459 | 1,122,429 |
| C. Total Cost | 1,243,894 | 1,257,943 |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | (23) | (193) |
| B. Nonfederal Revenue | (2,915) | 0 |
| C. Total Revenue | (2,938) | (193) |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | 0 | 0 |
| Total Net Cost | 1,240,956 | 1,257,750 |

Consolidated

| | | |
|---|-------------|-------------|
| 1. Gross Cost | | |
| A. Intragovernmental Cost | 35,447,955 | 35,586,622 |
| B. Nonfederal Cost | 125,680,816 | 111,564,179 |
| C. Total Cost | 161,128,771 | 147,150,801 |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | (3,617,183) | (3,967,995) |
| B. Nonfederal Revenue | (2,566,334) | (984,453) |
| C. Total Revenue | (6,183,517) | (4,952,448) |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | 0 | 0 |
| 4. Costs Not Assigned to Programs | 0 | 0 |
| 5. (Less: Earned Revenues) Not Attributed to Programs | 0 | 0 |
| Total Net Cost | 154,945,254 | 142,198,353 |

Relevant Information for Comprehension

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The Air Force's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenue. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses.

The Air Force does not meet accounting standards. Information presented is based on budgetary obligations, disbursements, and collection transactions, as well as nonfinancial feeder systems adjusted to record known accruals for major items such as payroll expenses, accounts payable and environmental liabilities.

The Air Force's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations.

In 2014 Operations, Readiness & Support reported an abnormal balance for Intragovernmental cost in the amount of \$1.2 billion. This is in relation to transfers to and from other government entities. Because of business practices, sometimes transfers from other Intergovernmental entities are recorded against program cost instead of revenue.

The \$7.3 million abnormal balance in Research, Development, Test & Evaluation Nonfederal Revenue is due to an adjustment in a cancelled appropriation that was needed as part of Government-wide Treasury Account Symbol Adjusted Trial Balance System implementation.

| | |
|-----------------|--|
| Note 19. | Disclosures Related to the Statement of Changes in Net Position |
|-----------------|--|

The \$101.7 million abnormal balance in nonexchange revenue is attributed to an adjustment required as part of the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) implementation to remove prior year adjustments which recorded changes to the allowance accounts. GTAS requirements do not allow balances in cancelled appropriations.

Other Financing Sources, Other is comprised of unsupported adjustments to reconcile reported intragovernmental transfers, the majority of which are recorded at the Air Force Component level, as the respective federal partners could not be identified nor the transfers reconciled.

The Appropriations Received on the Statement of Changes in Net Position (SCNP) do not agree with Appropriations on the Statement of Budgetary Resources (SBR) in the amount of \$427.7 million.

| Year Ended September 30, 2014 (\$ in millions) | | |
|---|-----------|--------------|
| Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position | | |
| | Total | |
| Appropriations, Statement of Budgetary Resources | \$ | 151,731.9 |
| Appropriations Received, Statement of Changes in Net Position | \$ | 152,159.6 |
| Total Reconciling Amount | \$ | 427.7 |
| Items Reported as Reductions to Appropriations, Statement of Budgetary Resources | | |
| Permanent Reductions | \$ | 1,123.5 |
| Items Reported as Additions to Appropriations, Statement of Budgetary Resources | | |
| Transfers | \$ | 684.4 |
| Items Not Reported as Appropriations Received on the Statement of Changes in Net Position | | |
| Dedicated appropriations and earmarked receipts | \$ | 11.4 |
| Total Reconciling Items | \$ | 427.7 |

| | |
|-----------------|--|
| Note 20. | Disclosures Related to the Statement of Budgetary Resources |
|-----------------|--|

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|------------|------------|
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | 86,543,625 | 83,828,998 |
| 2. Available Borrowing and Contract Authority at the End of the Period | 0 | 0 |

Relevant Information for Comprehension**Apportionment Categories**

Funds are apportioned by three categories: (1) Category A is apportioned quarterly, (2) Category B is apportioned by activity or project, and (3) Exempt is funds not subject to apportionment. The amounts of direct and reimbursable obligations incurred are stated in the table.

| | Category A | Category B | Exempt |
|--------------|----------------|----------------|----------------|
| Direct | \$93.2 billion | \$60.7 billion | \$11.6 million |
| Reimbursable | \$5.6 billion | \$3.3 billion | \$ 0 million |

Intraentity Transactions

The Statement of Budgetary Resources (SBR) includes intraentity transactions because the statements are presented as combined.

Permanent Indefinite Appropriations

Permanent indefinite appropriations are as follows (reference Note 23 for additional information):

Department of the Air Force General Gift Fund [10 USC 2601(b)]

Wildlife Conservation Fund [16 USC 670(a)]

Air Force Cadet Fund [37 USC 725(s)]

Medicare-Eligible Retiree Health Fund Contribution, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (10 USC 1116)

Legal limitations and time restrictions on the use of unobligated appropriation balances such as upward adjustments are provided under Public Law.

Appropriations Received

Appropriations on the SBR differ from those reported on the Statement of Changes in Net Position (SCNP). Refer to Note 19, Disclosures Related to the Statement of Changes in Net Position for additional details.

Note 21. Reconciliation of Net Cost of Operations to Budget

As of September 30

2014

2013

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

| | | | | |
|--|----|--------------|----|--------------|
| 1. Obligations incurred | \$ | 162,763,417 | \$ | 162,141,210 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | | (13,095,415) | | (13,123,636) |
| 3. Obligations net of offsetting collections and recoveries | \$ | 149,668,002 | \$ | 149,017,574 |
| 4. Less: Offsetting receipts (-) | | (165,256) | | (93,909) |
| 5. Net obligations | \$ | 149,502,746 | \$ | 148,923,665 |

Other Resources:

| | | | | |
|---|----|-------------|----|-------------|
| 6. Donations and forfeitures of property | | 0 | | 0 |
| 7. Transfers in/out without reimbursement (+/-) | | 256,135 | | 238,398 |
| 8. Imputed financing from costs absorbed by others | | 818,188 | | 747,791 |
| 9. Other (+/-) | | (5,732,825) | | 5,734,950 |
| 10. Net other resources used to finance activities | \$ | (4,658,502) | \$ | 6,721,139 |
| 11. Total resources used to finance activities | \$ | 144,844,244 | \$ | 155,644,804 |

Resources Used to Finance Items not Part of the Net Cost of Operations:

| | | | | |
|--|----|-------------|----|--------------|
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | | | |
| 12a. Undelivered Orders (-) | \$ | (2,714,628) | \$ | (751,311) |
| 12b. Unfilled Customer Orders | | 130,877 | | (187,645) |
| 13. Resources that fund expenses recognized in prior Periods (-) | | (763,250) | | (664,173) |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations | | 165,256 | | 93,909 |
| 15. Resources that finance the acquisition of assets (-) | | (5,822,719) | | (9,484,846) |
| 16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations: | | | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | | 0 | | 0 |
| 16b. Other (+/-) | | 5,375,684 | | (6,051,029) |
| 17. Total resources used to finance items not part of the Net Cost of Operations | \$ | (3,628,780) | \$ | (17,045,095) |
| 18. Total resources used to finance the Net Cost of Operations | \$ | 141,215,464 | \$ | 138,599,709 |

As of September 30

2014

2013

(Amounts in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

| | | | |
|--|--------|----|---------|
| 19. Increase in annual leave liability | 4,907 | \$ | 0 |
| 20. Increase in environmental and disposal liability | 0 | | 0 |
| 21. Upward/Downward reestimates of credit subsidy expense (+/-) | 0 | | 0 |
| 22. Increase in exchange revenue receivable from the public (-) | 0 | | 0 |
| 23. Other (+/-) | 80,487 | | 371,739 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | 85,394 | \$ | 371,739 |

Components not Requiring or Generating Resources:

| | | | |
|--|--------------|----|--------------|
| 25. Depreciation and amortization | 15,693,192 | \$ | 11,951,400 |
| 26. Revaluation of assets or liabilities (+/-) | 716,891 | | 1,673,505 |
| 27. Other (+/-) | | | |
| 27a. Trust Fund Exchange Revenue | 0 | | 0 |
| 27b. Cost of Goods Sold | 0 | | 0 |
| 27c. Operating Material and Supplies Used | 25,279,236 | | 6,564,693 |
| 27d. Other | (28,044,923) | | (16,962,693) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | 13,644,396 | \$ | 3,226,905 |

| | | | |
|---|-------------------|-----------|------------------|
| 29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period | 13,729,790 | \$ | 3,598,644 |
|---|-------------------|-----------|------------------|

| | | | |
|-----------------------------------|--------------------|-----------|--------------------|
| 30. Net Cost of Operations | 154,945,254 | \$ | 142,198,353 |
|-----------------------------------|--------------------|-----------|--------------------|

Relevant Information for Comprehension

Due to Air Force financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency. The amount of the adjustment to the note schedule to bring it into balance with the Statement of Net Cost is (\$15.4) million in the Other Components Not Requiring or Generating Resources category.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

Obligations Incurred

Less: Spending Authority from Offsetting Collections and Recoveries

Obligations Net of Offsetting Collections and Recoveries
Less: Offsetting Receipts
Net Obligations
Undelivered Orders
Unfilled Customer Orders

Other Resources Used to Finance Activities consists of other gains to adjust intragovernmental transfers in.

Other Resources Used to Finance Items Not Part of the Net Cost of Operations include adjustments to net obligated resources that do not affect the Net Cost of Operation such as net transfers in and out without reimbursement, and other gains and losses to adjust intragovernmental transfers in.

Other Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period consist of expenses due to Air Force Active Operations and Maintenance and Military Personnel.

Other Components not Requiring or Generating Resources include expenses for Operations and Maintenance, Procurement, and Military Construction.

| | |
|---------------------|--|
| Note 22. | Disclosures Related to Incidental Custodial Collections |
|---------------------|--|

The Air Force collected \$71.5 million of incidental custodial revenues generated primarily from collection of accounts receivable related to cancelled accounts. These funds are not available for use by Air Force. At the end of each fiscal year, the accounts are closed and the balances rendered to the U.S. Treasury.

| | |
|-----------------|---|
| Note 23. | Funds from Dedicated Collections |
|-----------------|---|

| BALANCE SHEET As of September 30 (Amounts in thousands) | 2014 | | | | |
|---|-------------------------------|---|------------------|-------------------|--------------------|
| | Harbor Maintenance Trust Fund | Rivers and Harbors Contributed and Advance Fund | Other Funds | Eliminations | Consolidated Total |
| ASSETS | | | | | |
| Fund balance with Treasury | \$ 0 | \$ 0 | \$ 31,414 | \$ 0 | \$ 31,414 |
| Investments | 0 | 0 | 954 | 0 | 954 |
| Accounts and Interest Receivable | 0 | 0 | (73) | 0 | (73) |
| Other Assets | 0 | 0 | 1,035 | 0 | 1,035 |
| Total Assets | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 33,330</u> | <u>\$ 0</u> | <u>\$ 33,330</u> |
| LIABILITIES and NET POSITION | | | | | |
| Accounts Payable and Other Liabilities | 0 | 0 | 168 | 32 | 200 |
| Total Liabilities | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 168</u> | <u>\$ 32</u> | <u>\$ 200</u> |
| Unexpended Appropriations | 0 | 0 | 0 | 0 | 0 |
| Cumulative Results of Operations | 0 | 0 | 33,162 | 7,979 | 41,141 |
| Total Liabilities and Net Position | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 33,330</u> | <u>\$ 8,011</u> | <u>\$ 41,341</u> |
| STATEMENT OF NET COST | | | | | |
| For the period ended September 30 | | | | | |
| Program Costs | \$ 0 | \$ 0 | \$ 6,888 | \$ (4,005) | \$ 2,883 |
| Less Earned Revenue | 0 | 0 | (316) | 0 | (316) |
| Net Program Costs | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 6,572</u> | <u>\$ (4,005)</u> | <u>\$ 2,567</u> |
| Less Earned Revenues Not Attributable to Programs | 0 | 0 | 0 | 0 | 0 |
| Net Cost of Operations | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 6,572</u> | <u>\$ (4,005)</u> | <u>\$ 2,567</u> |

| STATEMENT OF CHANGES IN NET POSITION For the period ended September 30 | 2014 | | | | |
|--|-------------------------------------|---|-------------|--------------|-----------------------|
| | Harbor Maintenance Trust Fund | Rivers and Harbors Contributed and Advance Fund | Other Funds | Eliminations | Consolidated Total |
| Net Position Beginning of the Period | \$ 0 | \$ 0 | \$ 32,260 | \$ 0 | \$ 32,260 |
| Net Cost of Operations | 0 | 0 | 6,572 | (4,005) | 2,567 |
| Budgetary Financing Sources | 0 | 0 | 11,448 | 0 | 11,448 |
| Other Financing Sources | 0 | 0 | (3,974) | 3,974 | 0 |
| Change in Net Position | \$ 0 | \$ 0 | \$ 902 | \$ 7,979 | \$ 8,881 |
| Net Position End of Period | \$ 0 | \$ 0 | \$ 33,162 | \$ 7,979 | \$ 41,141 |

| BALANCE SHEET As of September 30 (Amounts in thousands) | 2013 | | | | |
|--|-------------------------------------|---|-------------|--------------|-----------------------|
| | Harbor Maintenance Trust Fund | Rivers and Harbors Contributed and Advance Fund | Other Funds | Eliminations | Consolidated Total |

ASSETS

| | | | | | |
|----------------------------------|------|------|-----------|------|-----------|
| Fund balance with Treasury | \$ 0 | \$ 0 | \$ 26,530 | \$ 0 | \$ 26,530 |
| Investments | 0 | 0 | 1,077 | 0 | 1,077 |
| Accounts and Interest Receivable | 0 | 0 | (154) | 0 | (154) |
| Other Assets | 0 | 0 | 4,869 | 0 | 4,869 |
| Total Assets | \$ 0 | \$ 0 | \$ 32,322 | \$ 0 | \$ 32,322 |

LIABILITIES and NET POSITION

| | | | | | |
|--|------|------|-------|-------|-------|
| Accounts Payable and Other Liabilities | 0 | 0 | 62 | 23 | 85 |
| Total Liabilities | \$ 0 | \$ 0 | \$ 62 | \$ 23 | \$ 85 |

| | | | | | |
|----------------------------------|---|---|--------|-------|--------|
| Unexpended Appropriations | 0 | 0 | 0 | 0 | 0 |
| Cumulative Results of Operations | 0 | 0 | 32,260 | 1,104 | 33,364 |

| | | | | | |
|------------------------------------|------|------|-----------|----------|-----------|
| Total Liabilities and Net Position | \$ 0 | \$ 0 | \$ 32,322 | \$ 1,127 | \$ 33,449 |
|------------------------------------|------|------|-----------|----------|-----------|

STATEMENT OF NET COST

For the period ended September 30

| | | | | | |
|---|------|------|----------|------------|----------|
| Program Costs | \$ 0 | \$ 0 | \$ 4,334 | \$ (1,079) | \$ 3,255 |
| Less Earned Revenue | 0 | 0 | 0 | 0 | 0 |
| Net Program Costs | \$ 0 | \$ 0 | \$ 4,334 | \$ (1,079) | \$ 3,255 |
| Less Earned Revenues Not Attributable to Programs | 0 | 0 | 0 | 0 | 0 |
| Net Cost of Operations | \$ 0 | \$ 0 | \$ 4,334 | \$ (1,079) | \$ 3,255 |

| STATEMENT OF CHANGES IN NET POSITION For the period ended September 30 | 2013 | | | | |
|--|-------------------------------------|---|-------------|--------------|-----------------------|
| | Harbor Maintenance Trust Fund | Rivers and Harbors Contributed and Advance Fund | Other Funds | Eliminations | Consolidated Total |
| Net Position Beginning of the Period | \$ 0 | \$ 0 | \$ 19,470 | \$ 0 | \$ 19,470 |
| Net Cost of Operations | 0 | 0 | 4,334 | (1,079) | 3,255 |
| Budgetary Financing Sources | 0 | 0 | 17,149 | 0 | 17,149 |
| Other Financing Sources | 0 | 0 | (25) | 25 | 0 |
| Change in Net Position | \$ 0 | \$ 0 | \$ 12,790 | \$ 1,104 | \$ 13,894 |
| Net Position End of Period | \$ 0 | \$ 0 | \$ 32,260 | \$ 1,104 | \$ 33,364 |

Relevant Information for Comprehension

Department of the Air Force General Gift Fund [10 USC 2601 (b)]

The Department of the Air Force General Gift Fund accepts, holds, and administers any gift, device, or bequest of real or personal property, made on the condition that it is used for the benefit (or in connection with the establishment, maintenance, or operation) of a school, hospital, library, museum, or cemetery under the Air Force's jurisdiction. The fund is available to such institutions or organizations subject to the terms of the gift, device, or bequest.

Conditional gifts are invested in U.S. Treasury securities, and any interest earned on these securities is accumulated in the fund.

Wildlife Conservation Fund [16 USC 670 (a)]

The Wildlife Conservation Fund provides for (1) the conservation and rehabilitation of natural resources on military installations, (2) the sustainable multipurpose use of the resources which include hunting, fishing, trapping, and nonconsumptive uses, and (3) the public access to military installations to facilitate its use, subject to safety requirements and military security. The fund is available to carry out these programs and other such expenses that may be necessary for the purpose of the cited statute.

Consisting of both appropriated and nonappropriated funding, this fund gives installation commanders the authority to collect fees from the sale of hunting and fishing permits.

Air Force Cadet Fund [37 USC 725 (s)]

The Air Force Cadet Fund is maintained for the benefit of Air Force Academy cadets. Disbursements are made for the personal services of cadets such as laundry, arts, and athletics while collections are received from the same cadets at least equal to any disbursements made.

The Air Force General Gift Fund and Wildlife Conservation Fund are trust funds. The Air Force Cadet Fund is classified as a special fund. All three funds utilize receipt and expenditure accounts in accounting for and reporting the funds.

| | |
|-----------------|-----------------------------|
| Note 24. | Fiduciary Activities |
|-----------------|-----------------------------|

| |
|---------------------------------------|
| Schedule of Fiduciary Activity |
|---------------------------------------|

For the period ended September 30

2014

2013

(Amounts in thousands)

| | | | | |
|--|----|----------|----|----------|
| 1. Fiduciary net assets, beginning of year | \$ | 33,091 | \$ | 32,517 |
| 2. Fiduciary revenues | | 0 | | 0 |
| 3. Contributions | | 5,362 | | 45,612 |
| 4. Investment earnings | | 0 | | 2,692 |
| 5. Gain (Loss) on disposition of investments, net | | 0 | | 0 |
| 6. Administrative and other expenses | | 0 | | 0 |
| 7. Distributions to and on behalf of beneficiaries | | (36,775) | | (47,729) |
| 8. Increase/(Decrease) in fiduciary net assets | \$ | (31,413) | \$ | 575 |
| 9. Fiduciary net assets, end of period | \$ | 1,678 | \$ | 33,092 |

| |
|---|
| Schedule of Fiduciary Net Assets |
|---|

For the period ended September 30

2014

2013

(Amounts in thousands)

FIDUCIARY ASSETS

| | | | | |
|------------------------------|----|-------|----|--------|
| 1. Cash and cash equivalents | \$ | 1,678 | \$ | 33,091 |
| 2. Investments | | 0 | | 0 |
| 3. Other Assets | | 0 | | 0 |

FIDUCIARY LIABILITIES

| | | | | |
|----------------------|----|---|----|---|
| 4. Less: LIABILITIES | \$ | 0 | \$ | 0 |
|----------------------|----|---|----|---|

5. TOTAL FIDUCIARY NET ASSETS

| | | | |
|----|-------|----|--------|
| \$ | 1,678 | \$ | 33,091 |
|----|-------|----|--------|

Relevant Information for Comprehension

Leases in the Land and Buildings category include costs for the operating leased facilities for the active Air Force in the United States and overseas. Land and Buildings consist mostly of housing facilities as well as other mission critical assets.

Leases in the Other category are made up of commercial vehicle leases. Commercial leases are leases made by the Air Force with the general public. These would include leases with dealerships, rental car companies, or any such entity that provides car leasing services.

Note 25. Other Disclosures

| As of September 30 | 2014 Asset Category | | | |
|--|------------------------|-----------|-----------|------------|
| | Land and Buildings | Equipment | Other | Total |
| (Amounts in thousands) | | | | |
| 1. ENTITY AS LESSEE- Operating Leases | | | | |
| Future Payments Due | | | | |
| Fiscal Year | | | | |
| 2015 | 33,524 | 0 | 14,630 | 48,154 |
| 2016 | 32,573 | 0 | 14,777 | 47,350 |
| 2017 | 28,949 | 0 | 14,924 | 43,873 |
| 2018 | 25,916 | 0 | 15,074 | 40,990 |
| 2019 | 13,437 | 0 | 15,203 | 28,640 |
| After 5 Years | | | | |
| | 12,709 | 0 | 15,400 | 28,109 |
| Total Future Lease Payments Due | | | | |
| | \$ 147,108 | \$ 0 | \$ 90,008 | \$ 237,116 |

Relevant Information for Comprehension

Leases in the Land and Buildings category include costs for the operating leased facilities for the active Air Force in the United States and overseas. Land and Buildings consist mostly of housing facilities as well as other mission critical assets.

Leases in the Other category are made up of commercial vehicle leases. Commercial leases are leases made by the Air Force with the general public. These would include leases with dealerships, rental car companies, or any such entity that provides car leasing services.

Note 26. Restatements

Not applicable for 2014.

General Fund

Fiscal Year 2014

Required Supplementary
Stewardship Information

STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by DoD for the benefit of the nation, but are not physical assets owned by DoD. Stewardship investments include expenses incurred for federally financed, but not federally owned, physical property (Nonfederal Physical Property) and federally financed research and development (Research and Development).

NONFEDERAL PHYSICAL PROPERTY

Nonfederal Physical Property investments are expenses included in calculating net cost incurred by the reporting entity for the purchase, construction or major renovation of physical property owned by state and local governments. The expenses include the costs identified for major additions, alterations and replacements, purchases of major equipment, and purchases or improvements of other nonfederal assets. In addition, Nonfederal Physical Property Investments include federally owned physical property transferred to state and local governments.

| NONFEDERAL PHYSICAL PROPERTY Yearly Investment in State and Local Governments For the Current and Four Preceding Fiscal Years (\$ in millions) | | | | | |
|--|----------------|----------------|---------------|----------------|----------------|
| Categories | FY 2014 | FY 2013 | FY 2012 | FY 2011 | FY 2010 |
| 1. Transferred Assets: | | | | | |
| National Defense Mission Related | 0 | 0 | 0 | 0 | 0 |
| 2. Funded Assets: | | | | | |
| National Defense Mission Related | \$ 12.7 | \$ 12.3 | \$ 7.6 | \$ 12.0 | \$ 11.5 |
| Totals | \$ 12.7 | \$ 12.3 | \$ 7.6 | \$ 12.0 | \$ 11.5 |

The Air National Guard investments in Nonfederal Physical Property are strictly through the Military Construction Cooperative Agreements (MCCAs). These agreements involve the transfer of money only and allow joint participation with States, Counties, and Airport Authorities for construction or repair of airfield pavements and facilities required to support the flying mission assigned at these civilian airfields.

Investment values included in this report are based on Nonfederal Physical Property outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with the Federal GAAP requirements.

RESEARCH AND DEVELOPMENT

Research and Development investments are incurred in the search for new or refined knowledge and ideas, for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

| INVESTMENTS IN RESEARCH AND DEVELOPMENT Yearly Investment in Research and Development For the Current and Four Preceding Fiscal Years (\$ in millions) | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| Categories | FY 2014 | FY 2013 | FY 2012 | FY 2011 | FY 2010 |
| 1. Basic Research | \$ 511 | \$ 473 | \$ 494 | \$ 475 | \$ 473 |
| 2. Applied Research | 1,124 | 1,024 | 1,120 | 1,175 | 1,120 |
| 3. Development: | | | | | |
| Advanced Technology Development | 624 | 582 | 598 | 546 | 598 |
| Advanced Component Development and Prototypes | 936 | 1,105 | 1,179 | 1,981 | 1,179 |
| System Development and Demonstration | 4,382 | 4,504 | 2,783 | 3,137 | 2,783 |
| Research, Development, Test and Evaluation | | | | | |
| Management Support | 1,418 | 1,114 | 1,270 | 1,440 | 1,270 |
| Operational Systems Development | 14,864 | 14,665 | 14,913 | 18,653 | 14,913 |
| Totals | \$ 23,859 | \$ 23,467 | \$ 22,357 | \$ 27,407 | \$ 22,336 |

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicality of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system, to include non-system specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of the following five stages:

1. Advanced Technology Development is the systematic uses of the knowledge or understanding gained from research directed towards proof of technological visibility and assessment of operational and productivity rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software

components, or complete weapon systems, ready for operational and developmental testing and field use.

3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapon systems finalized for complete operational and developmental testing.

4. Research, Development, Test and Evaluation Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

5. Operational System Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are representative program examples for each of the above major categories:

Basic Research:

The Air Force Research Laboratory (AFRL) demonstrated 51 percent higher efficiency in a solar cell made of gallium arsenide using a unique anti-reflection coating scheme. This breakthrough has the potential to dramatically increase the capability of both space-based and terrestrial solar-powered platforms, such as having more power, longer range, or more time on station.

AFRL developed the first nonreciprocal acoustic circulator that can transmit acoustic waves in one direction and block them in the other direction. Based on fundamental work on novel metamaterials, this "sonic diode" allows for communication and sensing with dramatically reduced potential for intercept.

Applied Research:

AFRL successfully fabricated a 65nm, cyber-hardened, secure processor and integrated it with socket, board, and other hardware to demonstrate the key cyber security features of the processor. The processor successfully executed web server software at operationally relevant speeds, while utilizing protections such as morphing instruction sets, hardware-based encryption, and secure random number generation. These hardware features prevent attackers from being able to insert and run malicious code into otherwise vulnerable software and provide a hardware root-of-trust. Future work will seek to integrate this Secure Processor into secure, mission-aware routers capable of protecting and prioritizing mission-essential traffic along with embedded, military-grade weapon systems that must fight through cyber-attacks.

AFRL stood-up the Human Universal Measurement and Assessment Network (HUMAN) Laboratory. The HUMAN Laboratory enables researchers to sense operators' physiological responses via a wide array of on- and off-body sensors, assess cognitive load in near real-time based on the integrated physiological dataset, and augment human performance through the use of adaptive displays and automation that adjust to the operator's workload level. The HUMAN laboratory is quickly proving to be a highly valuable resource for studying the workload

drivers in complex, dynamic environments. Studies from both general populations and experienced Airmen have demonstrated the feasibility of inferring operator cognitive states using minimally-invasive physiological sensors and advanced analysis techniques. The laboratory also serves as a transition agent by providing guidance (i.e., equipment, methodologies, and recommendations) to several operational units, other services, and across AFRL.

Advanced Technology Development:

The U.S. military Adaptive Versatile Engine Technology (ADVENT) program successfully completed over 60 hours of ground testing of a fighter-size jet engine core, validating greater than 20 percent specific fuel consumption reduction. ADVENT testing continued as risk reduction for the follow-on Adaptive Engine Technology Development (AETD) program. Adaptive engines are a new jet engine architecture delivering improved efficiency and increased performance.

AFRL delivered six propulsion units for CubeSats to the National Reconnaissance Office for an upcoming in-space demonstration. These propulsion units provide an over 10X increase in propulsion capability of what is currently available, giving these CubeSats greater military utility.

AFRL engineers conducted a systematic effort to develop an explosive fill for the next generation of penetrating warheads. This formulation, which has been qualified as a new Air Force explosive, has improved lethality over legacy fills and increased resistance to unintended initiation during penetration into hard targets at high speeds.

Advanced Component Development and Prototypes (ACD&P):

Military Global Positioning System User Equipment Increment 1

Military GPS User Equipment (MGUE) Increment 1 is responsible for the development of standard modernized receiver form factors for service-nominated lead platforms identified in the Joint Requirements Oversight Council (ROC)-approved MGUE Capabilities Development Document (CDD). MGUE will deliver significantly improved capability for Global Positioning System (GPS) receivers to counter emerging position, navigation and timing (PNT) threats and enable military operations in GPS-denied and Navigation Warfare (NavWar) environments where current legacy receiver performance would be compromised.

MGUE Increment 1 is in the Technology Development phase; Increment 2 received a Materiel Development Decision and authority to enter into the Materiel Solution Analysis phase in accordance with the Acquisition Decision Memorandum (ADM) dated 9 Apr 2012. Technology maturation to date shows MGUE beyond the typical Technology Development phase which provides the opportunity to accelerate delivery of M-Code capability to the warfighter up to five years ahead of schedule.

Space Security and Defense Program

The Space Security and Defense Program (SSDP) is a Joint Department of Defense (DoD) and Office of the Director of National Intelligence (ODNI) organization established to function as the center of excellence for options and strategies (materiel, non-materiel, cross-community, cross-domain) leading to a more resilient and enduring National Security Space (NSS) Enterprise. In FY14, SSDP completed efforts resulting in the delivery and implementation of actionable

solutions for key mission areas: Operations, Satellite Communication (SATCOM), Position- Navigation and Timing (PNT), Missile Warning, Cyber/Non-Kinetic Operations, Space Situational Awareness (SSA), Indications and Warning (I&W), and Intelligence - Surveillance - Reconnaissance (ISR). Specific efforts include:

- Supported wargames and exercises to refine Tactics, Techniques, and Procedures (TTPs) and Concept of Operations (CONOPS) for space-protection tenets, and developed/integrated rapid prototyping capabilities for key mission areas.
- Developed and delivered validated response options to Combatant Commanders (CCMDRs) for various threats.
- Delivered analysis and solutions to the Joint Space Operations Center (JSpOC) for a functional Electromagnetic Interference (EMI) architecture.
- Implemented Cyber support to defensive space alternatives, delivered cyber protection threat assessments, provided assessments and solutions for hosted sensors.
- Provided strategic messages for a variety of key DoD and Intelligence Community (IC) activities.

Air Operations Center (AOC) Weapon System

The Air Operations Center (AOC) Weapon System is the primary tool used by the Joint or Combined Forces Air Component Commander (J/CFACC) to plan, execute, monitor and assess air, space, and cyberspace operations. The primary role for the seven geographic AOCs is to provide the theater Joint Forces Commander the tools necessary to execute missions across all spectrums of operations, from kinetic and non-kinetic warfare to humanitarian aid.

AOC 10.2 had its Milestone B decision in October 2013 and is currently in development. Critical Design Review was completed in March 2014 and the next major program milestone is Milestone C currently planned for the first quarter of FY16. AOC 10.2 implements a Service Oriented Architecture (SOA) that will address both the current point-to-point integration and security shortfalls. SOA allows for seamless, one time integration of applications onto a highly secure and customizable baseline. This architecture change will greatly improve the Air Force's ability to integrate application updates or new applications as they become available. This baseline also allows for the most modern security advances to be effectively integrated into the system and will allow the Air Force to more easily improve system security as the threats continue to evolve.

International Cooperative Research & Development

The Air Force funds several activities that advance International Cooperative Research and Development (ICR&D). Activities include the Unmanned Aircraft Systems (UAS) Heavy Fuel Operations and the Wind Tunnel Flow Visualization projects. The UAS Heavy Fuel Operations project with the United Kingdom is developing and demonstrating the use of low octane heavy fuel (i.e. JP-8) in small Unmanned Aircraft Systems (UAS) engines. This would serve as an alternative to the high octane AVGAS they currently require, but which is not logistically supported in the field. The Wind Tunnel Flow Visualization project with Australia is characterizing and improving Background Oriented Schlieren (BOS) flow visualization techniques for use in transonic wind tunnels with limited optical access.

Continuing International Space Cooperative Research & Development (ISCR&D) activities include Nanosatellites and Plug and Play Architectures II (NAPA II) with Sweden. This project is

developing joint nano-satellites based on plug-and-play architectures with synthetic aperture radar (SAR) payload to include development of "push-button" tool flows integrating ground, user, and launch segments for "designer" nanosatellites.

New ICR&D activities in FY14 include First Generation Quad-Stimulus Laser Eye Protection (Quad-Stim) and Air Vehicle Integrated Energy and Power Management Modeling and Simulation (IEPM). The Quad-Stim project with the United Kingdom will address a capability shortfall in Laser Eye Protection (LEP) by creating a new LEP filter solution resulting in improved transmittance in color neutral format and assure freedom of maneuver and freedom of access against adversarial threats within the operational environment. The IEPM project with the Netherlands will develop a verified and validated integrated energy and power management modeling and simulation capability to optimize air vehicle efficiency for legacy and future aircraft.

New ISCR&D activities include the Robust Affordable Networked Global Navigation Satellite System Receiver for Military Applications (RANGR) with the United Kingdom. This effort is proposing to develop the specification for and deliver a prototype network-enabled Global Navigation Satellite System (GNSS) receiver that demonstrates enhanced operational effectiveness by leveraging existing and planned deployments of U.S. and foreign GNSS open (civilian) signals and incorporating cooperative networking to increase position, navigation, and timing (PNT) availability and accuracy in otherwise GPS-only denied or degraded environments.

System Development and Demonstration:

F-35 Joint Strike Fighter

The F-35 Joint Strike Fighter (JSF) program is developing a family of strike fighter aircraft for the Air Force, Navy, Marine Corps and our allies, with maximum commonality among the variants to minimize life cycle costs. The F-35A Conventional Takeoff and Landing (CTOL) variant will be a multi-role, primary air-to-ground aircraft to replace the F-16 and A-10, and will complement the F-22. While the F-22 will establish air dominance, the F-35 with its combination of stealth, large internal payloads and multi-spectral avionics will provide persistent stealth and precision engagement to future battle space. The F-35 is in the 13th year of a 17-year System Development and Demonstration (SDD) effort. The President's Budget for FY14 continued the SDD effort and procured 29 aircraft for the U.S. (19 F-35A aircraft for the USAF, 6 F-35Bs for the USMC, and 4 F-35Cs for the Navy). Significant program accomplishments in FY14 include:

- The test fleet flew over 1,450 sorties / 2,280 flight hours.
- F-35 production aircraft flew over 5,000 sorties / 7,350 flight hours.
- Eielson AFB was announced on 8 August 2014 as the preferred alternative for the first PACAF base.
- USAF announced the F-35A will reach Initial Operational Capability (IOC) between August 2016 and December 2016.
- First live fire launch of an AIM-120 from an F-35A occurred on 30 October 2013.
- 33 production aircraft were delivered to Eglin AFB, Edwards AFB, Luke AFB, and Marine Corps Air Station Yuma.
- Pratt & Whitney Low Rate Initial Production (LRIP) Lot 6 engine contract was awarded on 23 October 2013.

KC-46

The KC-46 is the next generation Aerial Refueling Tanker and will replace approximately one third of the aging KC-135 Stratotanker fleet. The aircraft is a militarized commercial derivative of the Boeing 767-200. The KC-46 will provide aerial refueling support to the Air Force, Navy, and Marine Corps as well as allied nation coalition force aircraft, plus increased capabilities for cargo and aeromedical evacuation. Significant FY2014 accomplishments include:

- Engineering & Manufacturing Design (EMD) Aircraft: All four EMD aircraft are in development. The first flight of EMD #1 (767-2C configuration) is planned for early FY 2015, with the first flight of EMD aircraft #2 (KC-46 tanker configuration) planned for soon thereafter. The program continues to proceed deliberately toward its next critical execution goals – beginning Developmental Test and Evaluation in FY 2015 and Milestone C in 2015.
- Basing: Final basing announcements were made for the Formal Training Unit (FTU), Main Operating Base (MOB) #1 and MOB #2 at Altus AFB (OK), McConnell AFB (KS) and Pease ANGB (NH) respectively. MOB #3 will be announced in 2016.

Advanced Extremely High Frequency

The Advanced Extremely High Frequency (AEHF) System is a joint service satellite communications system that will provide survivable, global, secure, protected, and jam-resistant communications for high-priority military ground, sea and air assets. AEHF will allow the National Security Council and Unified Combatant Commanders to control their tactical and strategic forces at all levels of conflict through general nuclear war and supports the attainment of information superiority. The AEHF System is the follow-on to the Milstar system, augmenting and improving on the capabilities of Milstar, and expanding the MILSATCOM architecture.

AEHF 2 completed on-orbit testing on September 24, 2012 and the 14th Air Force accepted Satellite Control Authority on November 7, 2012. AEHF 3 was successfully launched from Cape Canaveral Air Force Station on September 18, 2013 and is now under operational control as of March 2014. AEHF 4 production is progressing smoothly with the bus and payload at 73% complete. AEHF 4 launch availability is expected in 2017. The AEHF program is on track to obtain the Initial Operational Capability (IOC) milestone in FY15. IOC includes mission supported, active networks and two separate satellites operating in the AEHF mode. The operational control segment consists of one fixed and one transportable control element and an interim fully operational communications management system.

Space Based Infrared System (SBIRS)

The Space Based Infrared System (SBIRS) is an integrated, incrementally-deployed system of satellites that provides initial warning of ballistic missile attack on the U.S., its deployed forces, or its allies. SBIRS supports the missile warning, missile defense, battlespace awareness, and technical intelligence mission areas. It is a more-capable successor to the Defense Support Program (DSP).

On March 2013, the SBIRS GEO-2 satellite was launched and extensively tested for the remainder of 2013. Both GEO-1 and GEO-2 satellites were accepted for missile warning operations in November 2013, joining the previously certified HEO-1 and -2 payloads as part of the SBIRS constellation, providing greater sensor sensitivity and faster revisit rates than legacy systems. The SBIRS ground segment continued its consolidation into a single Mission Control

Station (MCS) and Backup (MCS-B) in 2014 with hardware fit-up at both sites. The ground segment delivered the standardized space trainer in December 2013, the launch and anomaly resolution center in April 2014, and the Mission Processing Risk Reduction software build in June 2014.

Space Fence

Space Fence is a system of ground-based sensors to improve upon the former Air Force Space Surveillance System, a Very High Frequency radar operational from 1961 to 2013. The Space Fence will provide a more accurate and timely detection capability of smaller orbiting objects, primarily in low-earth orbit. The system will use higher frequency S-band radars at globally dispersed sites. As a result, it will greatly expand the uncued detection and tracking capability of the Space Surveillance Network from around 20,000 to up to 100,000+ objects, while working in concert with other network sensors. Increment 1/Initial Operational Capability will consist of successful operations at the first radar site located in the Kwajalein Atoll and the Space Fence Operations Center (SOC) at a CONUS location. During 3QFY14, the EMD, Production and Deployment contract award was made to Lockheed Martin MST in support of integrated system design, and will culminate in a Critical Design Review (CDR) and start of development of the SOC and Site 1 Radar hardware and software. Ground breaking is scheduled for FY15. Increment 2 will include completion of the second OCONUS radar, pending funding determinations and negotiations with the proposed host nation.

Research, Development, Test and Evaluation Management Support:

The Air Force's Research, Development, Test and Evaluation (RDT&E) Management Support efforts include projects directed toward support of installations and operations required for testing at the Air Force Major Range and Test Facility Base (MRTFB). In FY2014, multiple facility and range test capability improvement efforts were completed at the Arnold Engineering Development Center (AEDC) at Arnold AFB TN, the 412 Test Wing (TW) at Edwards AFB CA, the 96 TW at Eglin AFB FL and the 96 Test Group (TG) at Holloman AFB NM.

Additionally, the Space and Missile Systems Center (SMC) Civilian Workforce program equips US and allied forces with operational space and missile systems, launch systems, and command and control infrastructure in support of global military and national security operations. SMC operates with over 6,300 people and an annual budget exceeding \$8B providing joint warfighters with navigation, communication, weather, warning, force application, and space control capabilities. In FY12, as an AF pilot initiative, SMC acquisition workforce civilian personnel funding was transferred from O&M to RDT&E funds.

In FY 2014, AEDC completed installation and verification efforts and began validation efforts of the new Captive Trajectory System (CTS) rig, the nozzle actuator and control systems, and the Data Acquisition System (DAS), at the 4T transonic wind tunnel. The Advanced Large Military Engine Capability (ALMEC) project installed and checked out two exhaust intercoolers and 4 of 18 main drive exciters; completed design efforts and initiated procurement and installation activities on the plant control and air supply water systems; continued design and development of the facility switchgear systems to replace aging breaker systems; and initiated design and procurement efforts on heater tube replacements for the legacy aero-propulsion test cells. The Advanced Small Military Engine Capability (ASMEC) completed procurement and installation and checkout of the gas heater system, completed critical design and procurement activities on the air supply and mechanical bypass systems, and completed preliminary design efforts on the plant control systems to upgrade AEDC's T3 high speed altitude test facility. The Improved

Transonic Test Capability (IMTTC) began preliminary design efforts to upgrade AEDC's 16T transonic wind tunnel systems to increase productivity and efficiency of its Data Acquisition Systems (DAS), Test Article Control Systems (TACS) and data networks. The Test Instrumentation, Data Systems & Control (TIDSC) project initiated preliminary design and development efforts to provide instrumentation and data system upgrades across AEDC wind tunnel test facilities/infrastructure, including upgrades to the C1 facility's signal conditioning, digital temperature scanning, voltage measurement, and data distribution systems.

At the 412 TW, the Joint Airborne Instrumentation Integration (JAI) project completed hardware and data instrumentation system upgrades to approximately 15 percent of AFMC's instrumented airborne test platforms and ground support infrastructure at Eglin and Edwards AFBs per the test fleet modernization plan. The Telemetry Systems Integration Support (TSIS) project completed remote control capabilities to all six telemetry (TM) mobile ground stations, completed C-band upgrades to two fixed TM ground antenna sites, modified 25 remaining ground-based TM receivers to incorporate C-band capability, and initiated efforts to investigate and resolve TM frequency coverage gaps on the flight line and taxiways at Edwards AFB. To support electronic warfare (EW) efforts, the 412 EWG/OL-HN at Wright-Patterson AFB continued radio frequency (RF) threat simulator reconstitution of the Air Force Electronic Warfare Evaluation Simulator (AFEWES) capabilities that were transferred from Ft. Worth TX in 2012 and completed checkouts for approximately 25% of the delivered RF threat simulator systems. The Guided Weapons Evaluation Facility (GWEF) at the 96 TW brought the 9-axis Infrared (IR) Flight Motion Simulator (FMS) up to functional status completing development and calibration efforts following transfer of the AFEWES IR capabilities. The 96 TW also began IR simulator software improvements and upgraded system hardware and interfaces to the IR developmental test lab. At Edwards AFB, the 412 EWG fielded a new Digital Integrated Air Defense System (DIADS) software release, which improved tracker capability and scenario preparation. DIADS also continued development of advanced jamming capabilities and improved weapon command and control algorithms, and validated architecture and simulation upgrades to advance new capabilities to simulate evolving threats. The Advanced Warfare Test & Evaluation Capability (AWTEC) completed Benefield Anechoic Facility (BAF) upgrades, providing Electromagnetic Interference/Electromagnetic Compatibility (EMI/EMC) test capabilities in the high and low frequency bands and integration of new test control and RF monitoring systems. AWTEC also continued development of Identify Friend or Foe (IFF) software, Advanced Global Navigation System upgrades for the BAF, and awarded a contract to begin upgrading the BAF advanced threat signal generation capabilities to support F-35 and other aircraft platform testing. AWTEC further procured free space carts and continued development and integration of a follow-on Advanced Radar Environment Simulation (ARES) build.

The 96 TW at Eglin AFB completed independent verification and validation (IV&V) efforts and final report activities on the Advanced Command Destruct System (ACDS) project. The Advanced Munitions Test Improvement (AMTI) project completed integration and acceptance of the Millimeter Wave (MMW) and advanced GPS simulators, real-time scene generation software upgrades, and seeker integration with the MMW and Imaging Infrared simulators to support weapon testing. The Gulf Range Test and Training Control Center (GRTTCC) project completed a critical power system upgrade to the 96 TW's Central Control Facility (CCF); completed integration and checkout of high-resolution video, data distribution and display system hardware; and continued procurement and integration of next generation TM processing systems and upgrades to mission control room computer systems and fiber data links. The Joint Gulf Range Area Network Development (JGRAND) completed design efforts and made preparations to award a contract for development of an Alternate Range Network Operations

Control Center (Alt RNOCC); continued installation of fiber optical cable to connect test sites; and continued to procure network protocol and security hardware to improve range data communication capabilities at the 96 TW. The Combined High-Speed/High-Resolution (CHSHR) Electro-optical/Infrared (EO/IR) Imaging project completed procurement and delivery of approximately 50% of the high-speed digital camera systems and 30% of the infrared camera systems for both the 96 TG and 96 TW. At the 96 TG, the project eliminated dependency on film processing at the Holloman High-Speed Test Track (HHSTT) and procured a new ultra high speed digital camera system for the HHSTT.

At the 96 TW, the project completed modernization of four Cinetheodolite (Cine-T) long range optical tracking systems; initiated modernization efforts for four additional Cine-T long range optical tracking systems; and continued to develop remote C2 operations to provide improved tracking capabilities of IR and long-range optical tracking systems at Eglin AFB. The Next Generation Munitions Test Environment (NGMTE) project initiated environmental approval and range clearing efforts to begin installation of a new insensitive munitions pad at Eglin AFB; completed preparation efforts to award a contract in FY15 to construct a new drop tower to support insensitive munitions testing; completed acceptance testing of a new 8,300 foot per second gun system to support insensitive munitions testing and meet MIL-STD requirements; and continued procurement and installation of new data acquisition and fragment scoring systems supporting the ballistic test ranges and one arena test range to improve gun and munitions test capabilities and meet Joint Munitions Effectiveness Model (JMEM) requirements. Early planning also began for the Improved Command and Control (C2) Test Operations Center (I-C2TOC) project to develop net-centric C2 battle management operations capabilities, improve communication interfaces and data collection, handling, analysis and display capabilities to support C4ISR end-to-end weapon system testing at Eglin AFB.

At Holloman AFB, the 96 TG completed the Ultra High Accuracy Reference System (UHARS) integration efforts and initiated fielding, installation and checkout of the GPS and non-GPS based reference systems needed to test and evaluate future navigation and guidance systems. The National Radar Cross Section (RCS) Test Facility (NRTF) completed development and procurement of the Radar VHF/UHF Measurement System (RVUMS) Antenna Feed Horn system; initiated development and procurement of a new digital receiver system; procured and implemented a high-power transmitter system; and completed design and construction of a new paint booth facility. NRTF also continued upgrades of the machine/supply shops facilities, and initiated modularity studies to improve system efficiency and accuracy studies to improve system sensitivity and resolution.

Operational System Development:

F-22 Raptor Program

The Air Force's Operational System Development efforts include projects that support upgrades for the F-22 Raptor. The F-22 Raptor is in post-production and the fleet has surpassed 185,000 flying hours. Operational System Development activities will enhance the F-22 Raptor's capabilities and enable the program to maintain its role as enabler of joint air dominance for years to come. Increment 2 is resident in all delivered aircraft and represents the first upgrade over Initial Operational Capability (IOC). The modernization program enhanced the air vehicle, engine, and training systems to improve F-22A weapons, communications, and Intelligence Surveillance Reconnaissance (ISR) capabilities and further enhance Global Strike capabilities. The F-22 Raptor program is also developing and fielding critical operational capability upgrades in three interdependent increments. Increment 3.1 adds synthetic aperture radar, Small

Diameter Bomb, electronic attack and geo-location enhancements. Increment 3.2A adds electronic protection, combat identification, and Link-16 enhancements. Increment 3.2B builds on these increments and adds AIM-9X, AIM-120D and improved geo-location and Intra-flight Data Link capabilities. Operational flight program Update 5 continues in development. Scheduled for fielding in FY15, this update will add Auto Ground Collision Avoidance, AIM-9X Basic (lock-on before launch) and Intra-flight Data Link gateway capabilities. FY14 activities included the continued fielding of the Increment 3.1 suite, development and testing of Increment 3.2A, development of Increment 3.2B, and development of Update 5.

Small Diameter Bomb II

Shrinking force structure, increased tasking, evolving threats, and collateral damage avoidance will drive a demand for a precision strike capability with a mission planned datalink equipped weapon. Small Diameter Bomb (SDB) II will provide strike aircraft with a capability to attack stationary and mobile targets through the weather with standoff capability while retaining miniature munition type weapon attributes (effective day/night, adverse weather, increased load-out, focused logistics, etc.) plus the capability to attack a range of stationary targets across the combat arena. The program is now 49 months into the 83-month EMD phase with developmental test and evaluation ground and flight testing underway. Testing during EMD is structured in a phased Test and Evaluation (T&E) approach with Phase I supporting verification of Normal Attack, Coordinate Attack, and Laser Illuminated Attack modes on the F-15E. Phase II supports integration of the full SDB II capability on the F-35B and F-35C. Production for SDB II is scheduled to start FY15 and continue through FY25.

Airborne Warning and Control System (AWACS)

The Airborne Warning and Control System (AWACS) aircraft continues to modernize its mission capabilities to remain an effective airborne battle management and surveillance system for command and control of combat forces. The Block 40/45 Upgrade improves the quality and timeliness of sensor data for shooters, improves combat identification, supports a common tactical picture through multi-sensor integration, improves the AWACS contribution to Time Critical Targeting via Data Link Infrastructure, improves electronic support measures processing, and enables more effective, faster upgrades via an open system, Ethernet-based architecture. In FY14, Block 40/45 completed development activities on maintenance and crew training systems, as well as a Secure Iridium Communication capability. FY14 marked the final year of RDT&E funding for Block 40/45 and was highlighted by the Commander of Air Combat Command's formal declaration of Initial Operational Capability effective 28 Jun 2014. The Next Generation Identification Friend or Foe (NGIFF) effort provides AWACS with a secure Mode 5 (and Mode S for 40/45 aircraft) capability. In FY14, NGIFF completed final system verification review, the Technical Requirements Document and data analysis for flight test on Block 40/45 aircraft. The Diminishing Manufacturing Sources (DMS) Replacement of Avionics for Global Operations and Navigation (DRAGON) modification is a cooperative development effort with the NATO AWACS program which updates the aircraft to satisfy international airspace and air traffic control mandates while replacing obsolete avionics. In FY14, the initial induction for DRAGON began and will complete lab software testing and modification, while initiating ground testing. The AWACS program is also continuing risk reduction efforts on multiple fronts including operations in contested environments and high bandwidth / Beyond Line of Sight (BLOS) communication requirements needed to be relevant on tomorrow's battlefield.

B-2 Defensive Management System Modernization (DMS-M)

In FY14 the Air Force continued technology development for the DMS-M program which modernizes the original Defensive Management System to address emerging / proliferating electronic threats, ensuring the B-2 Spirit's continued ability to penetrate adversary defenses in anti-access / area denial (A2/AD) environments. DMS-M replaces the electronic support measures, the avionics graphics processor, and develops and installs new antennas to expand the frequency coverage and capabilities of the B-2 defensive system. The program completed its pre-EMD review and was approved to release a Request for Proposal for EMD in June 2013. A successful technology development phase will culminate with Milestone B and entry into EMD in 2015.

Joint Space Operations Center Mission Systems

The Joint Space Operations Center (JSpOC) is the command and control (C2) center that enables the Joint Functional Component Command for Space (JFCC SPACE) to integrate space forces for global military operations. JSpOC Mission Systems (JMS) replaced the legacy Space Defense Operations Center (SPADOC) with sustainable hardware, open and evolvable software architecture, and best-of-breed Space Situational Awareness tools. This multi-year effort plans to incrementally deliver a Space Situational Awareness (SSA) and Space C2 capability for the Commander of JFCC SPACE.

JMS lays the groundwork for a predictive battle management and command & control system with continuously evolving space operator roles and responsibilities, sensor integration and data delivery, threat warning, and rapid response capabilities. JMS is broken into multiple increments. Increment 1 has been in continuous operations since Nov 2012. It delivered a User Defined Operating Picture (UDOP) and Service Oriented Architecture as a basis for Increment 2, which is currently in progress and will provide the capabilities necessary to migrate off the legacy system. Increment 3 will focus on emerging threats and operational priorities that drive the need for a space battle management and C2 capability. The following is a list of technologies completed or furthered as a result of JMS:

- Modular Infrastructure & UDOP
- Space Order of Battle / Force Status / Sensor Management
- Initial Space Catalog Administration
- Initial Orbital Conjunction & Maneuver Reporting
- High Accuracy Catalog
- Conjunctions / Maneuver / Breakup / Re-Entry
- Launch Processing
- Message Processing / Tasking

General Fund

Fiscal Year 2014

Required Supplementary Information

Department of Defense
Department of the Air Force
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | Research, Development, Test & Evaluation | Procurement | Military Personnel |
|--|---|-------------------|--------------------|
| BUDGETARY RESOURCES: | | | |
| Budgetary Resources: | | | |
| Unobligated balance brought forward, Oct. 1 | \$ 4,367,914 | 16,525,706 | 677,203 |
| Unobligated balance brought forward, Oct. 1, as adjusted | 4,367,914 | 16,525,706 | 677,203 |
| Recoveries of prior year unpaid obligations | 529,475 | 876,623 | 762,133 |
| Other changes in unobligated balance (+ or -) | (211,219) | (889,115) | (2,671) |
| Unobligated balance from prior year budget authority, net | 4,686,170 | 16,513,214 | 1,436,665 |
| Appropriations (discretionary and mandatory) | 23,821,864 | 34,389,622 | 35,887,695 |
| Spending Authority from offsetting collections (discretionary and mandatory) | 2,686,112 | 572,110 | 581,700 |
| Total Budgetary Resources | <u>\$ 31,194,146</u> | <u>51,474,946</u> | <u>37,906,060</u> |
| Status of Budgetary Resources: | | | |
| Obligations Incurred | 27,316,839 | 35,569,288 | 36,621,125 |
| Unobligated balance, end of year | | | |
| Apportioned | 3,432,378 | 14,461,373 | 188,582 |
| Exempt from Apportionment | 0 | 0 | 0 |
| Unapportioned | <u>444,928</u> | <u>1,444,286</u> | <u>1,096,353</u> |
| Total unobligated balance, end of year | <u>3,877,306</u> | <u>15,905,659</u> | <u>1,284,935</u> |
| Total Budgetary Resources | <u>\$ 31,194,145</u> | <u>51,474,947</u> | <u>37,906,060</u> |
| Change in Obligated Balance: | | | |
| Unpaid obligations: | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 12,260,551 | 36,338,368 | 2,848,491 |
| Obligated incurred | 27,316,839 | 35,569,288 | 36,621,125 |
| Outlays (gross) (-) | (25,737,510) | (36,654,401) | (36,052,712) |
| Recoveries of prior year unpaid obligations (-) | <u>(529,475)</u> | <u>(876,623)</u> | <u>(762,133)</u> |
| Unpaid Obligations, end of year | 13,310,405 | 34,376,632 | 2,654,771 |
| Uncollected payments: | | | |
| Uncollected pymts, Fed sources, brought forward, Oct 1 (-) | (734,038) | (43,605) | (86,359) |
| Change in uncollected pymts, Fed sources (+ or -) | (266,810) | (16,988) | 23,685 |
| Uncollected pymts, Fed sources, end of year (-) | <u>(1,000,848)</u> | <u>(60,593)</u> | <u>(62,674)</u> |
| Obligated balance, start of year (+ or -) | <u>11,526,513</u> | <u>36,294,764</u> | <u>2,762,132</u> |
| 3200 Obligated balance, end of year (+ or -) | <u>\$ 12,309,557</u> | <u>34,316,039</u> | <u>2,592,097</u> |
| Budget Authority and Outlays, Net: | | | |
| Budget authority, gross (discretionary and mandatory) | 26,507,976 | 34,961,732 | 36,469,395 |
| Actual offering collections (discretionary and mandatory) (-) | (2,419,302) | (555,123) | (605,385) |
| Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -) | <u>(266,810)</u> | <u>(16,988)</u> | <u>23,685</u> |
| Budget Authority, net (discretionary and mandatory) | <u>\$ 23,821,864</u> | <u>34,389,621</u> | <u>35,887,695</u> |
| Outlays, gross (discretionary and mandatory) | 25,737,510 | 36,654,401 | 36,052,712 |
| Actual offsetting collections (discretionary and mandatory) (-) | (2,419,302) | (555,123) | (605,385) |
| Outlays, net (discretionary and mandatory) | 23,318,208 | 36,099,278 | 35,447,327 |
| Distributed offsetting receipts (-) | 0 | 0 | 0 |
| Agency Outlays, net (discretionary and mandatory) | <u>\$ 23,318,208</u> | <u>36,099,278</u> | <u>35,447,327</u> |

| Family Housing & Military Construction | Operations, Readiness & Support | 2014 Combined | 2013 Combined |
|---|------------------------------------|--------------------|--------------------|
| 1,443,756 | 2,613,610 | 25,628,189 | 33,078,540 |
| 1,443,756 | 2,613,610 | 25,628,189 | 33,078,540 |
| 35,918 | 2,349,679 | 4,553,828 | 4,304,907 |
| (10,432) | (932,166) | (2,045,603) | (2,779,622) |
| 1,469,242 | 4,031,123 | 28,136,414 | 34,603,825 |
| 1,240,715 | 56,391,966 | 151,731,862 | 144,269,165 |
| 859 | 4,801,811 | 8,642,592 | 8,896,412 |
| <u>\$ 2,710,816</u> | <u>65,224,900</u> | <u>188,510,868</u> | <u>187,769,402</u> |
| 1,041,879 | 62,214,287 | 162,763,418 | 162,141,210 |
| 1,188,873 | 558,999 | 19,830,205 | 20,240,335 |
| 0 | 12,862 | 12,862 | 13,293 |
| <u>480,064</u> | <u>2,438,750</u> | <u>5,904,381</u> | <u>5,374,562</u> |
| <u>1,668,937</u> | <u>3,010,611</u> | <u>25,747,448</u> | <u>25,628,190</u> |
| <u>\$ 2,710,816</u> | <u>65,224,898</u> | <u>188,510,866</u> | <u>187,769,400</u> |
| 1,760,769 | 23,672,837 | 76,881,017 | 81,011,195 |
| 1,041,879 | 62,214,287 | 162,763,418 | 162,141,210 |
| (1,275,122) | (56,382,320) | (156,102,065) | (161,966,480) |
| <u>(35,918)</u> | <u>(2,349,679)</u> | <u>(4,553,828)</u> | <u>(4,304,907)</u> |
| 1,491,608 | 27,155,124 | 78,988,540 | 76,881,017 |
| 0 | (1,098,971) | (1,962,973) | (2,173,734) |
| 0 | (125,636) | (385,749) | 210,760 |
| <u>0</u> | <u>(1,224,606)</u> | <u>(2,348,721)</u> | <u>(1,962,973)</u> |
| <u>1,760,769</u> | <u>22,573,866</u> | <u>74,918,044</u> | <u>78,837,461</u> |
| <u>\$ 1,491,608</u> | <u>25,930,518</u> | <u>76,639,819</u> | <u>74,918,044</u> |
| 1,241,574 | 61,193,777 | 160,374,454 | 153,165,577 |
| (859) | (4,676,174) | (8,256,843) | (9,107,170) |
| 0 | (125,636) | (385,749) | 210,760 |
| <u>\$ 1,240,715</u> | <u>56,391,967</u> | <u>151,731,862</u> | <u>144,269,167</u> |
| 1,738,018 | 56,382,320 | 156,102,065 | 161,966,480 |
| (204) | (4,676,174) | (8,256,843) | (9,107,170) |
| 1,737,814 | 51,706,146 | 147,845,222 | 152,859,310 |
| 0 | (165,256) | (165,256) | (93,909) |
| <u>\$ 1,737,814</u> | <u>51,540,890</u> | <u>147,679,966</u> | <u>152,765,401</u> |

DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

The Air Force has performance measures based on missions and outputs. The Air Force is unable to accumulate costs for major programs based on those performance measures because its financial processes and systems were not designed to collect and report this type of cost information. Until the processes and systems are upgraded, the Air Force will break out programs by major appropriation groupings.

STEWARDSHIP PLANT, PROPERTY, AND EQUIPMENT (PP&E)

| HERITAGE ASSETS For Fiscal Year Ended September 30, 2014 | | | | | |
|---|----------------------|---------------|-----------|-----------|---------------|
| Heritage Asset Categories | Measurement Quantity | As of 9/30/13 | Additions | Deletions | As of 9/30/14 |
| Buildings and Structures | Each | 6,924 | 53 | 871 | 6,106 |
| Archaeological Sites | Sites | 2,781 | 337 | 28 | 3,090 |
| Museum Collection Items (Objects, Not Including Fine Art) | Each | *135,278 | 334 | 399 | 135,213 |
| Museum Collection Items (Fine Art) | Each | *1,433 | 4 | 109 | 1,328 |

*Numbers have been adjusted for accession number breakouts, updates and clerical errors.

Heritage Assets are items of historical, natural, cultural, educational, or artistic significance (e.g., aesthetic), or items with significant architectural characteristics.

1. Buildings and Structures

Buildings and Structures that are listed on, or eligible for listing on the National Register of Historic Places (NRHP), including multi-use facilities, are Heritage Assets. These buildings and structures are maintained in accordance with the National Historic Preservation Act (NHPA), and "The Secretary of Interior's Standards for The Treatment of Historic Properties" by each base's civil engineering group, as part of their overall responsibility. The Air Force reports 6,106 buildings and structures on Air Force installations and sites to be Heritage Assets as of Sep 2014. Installation and Installation Support Team (IST) Cultural Resource Managers (CRMs) reported that 53 structures were determined eligible and 871 were demolished or otherwise deleted as Heritage Assets from AF Real Property records in FY 14. In other words, the total of Heritage Asset built facilities decreased by 871 units in FY14 compared to FY13; most were demolitions covered under the 2008 Capehart-Wherry Era Housing, and the 2010 Cold War Era Ammunition Storage Facilities, and Cold War Era Unaccompanied Housing nation-wide programmatic agreements that completed NHPA Section 106 review for these abundant facilities.

Heritage Asset buildings and structures are maintained by each base civil engineering group and are considered to be in good condition. These buildings and structures are subject to NHPA Section 106 review and consultation requirements whenever Air Force undertakings might affect their historic characteristics. Section 106 reviews ensure State Historic Preservation Officers, tribal leaders, and other party concerns are taken into account when Air Force decides to adversely affect Heritage Asset buildings and structures.

2. Archaeological Sites

Prehistoric and historic archaeological sites that have been identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with NHPA Section 110. The Air Force reports 3,090 archeological sites on or eligible for listing on the National Register as of Sep 2014, up 309 from the 2,624 reported for FY2013. This cohort of archaeological Heritage Assets is a subset of over 20,000 archaeological sites recorded on Air Force controlled and owned lands in the USA and its Territories.

3. Museum Collection Items, Objects

This represents the number of objects which meet the criteria for historical property as defined in Air Force Instruction 84-103 and that have been evaluated, accessioned, and catalogued in the Air Force national historical collection. The National Museum of the United States Air Force (NMUSAF) performs inherently governmental functions by fulfilling statutory requirements delegated by the Secretary of the Air Force for management of the Air Force's national historic collection. The NMUSAF is fully accredited by the American Association of Museums.

During the period 1 October 2013 – 30 September 2014 there have been 334 objects added to the collection. These additions are a result of private donations, transfers from Air Force or other federal entities, curatorial administrative actions, and the continued documentation of newly reported artifacts at Air Force activities worldwide. 399 objects were deaccessioned from the collection as having been determined not to meet historic property criteria, were in poor condition, or were transferred to other federal historical activities. As part of the NMUSAF's active collection management process, the accession and deaccession of objects is continuous.

The overall condition of the historic collection, which is primarily located at the NMUSAF, is very good as a result of both the professional care from trained conservators and ever improving exhibit/storage conditions. During FY2014 along with continued preventive maintenance on the aircraft collection, detailed restoration work continued on the iconic B-17F "Memphis Belle" as well the acquisition of a CV-22B Osprey.

Museum Collection Items, Fine Art

In addition to its artifact collection, the NMUSAF holds a fine art collection separate from the Air Force Art Collection (SAF/AFAPO) numbering 1328 items. Containing original oils, drawings, sketches and sculptures these fine art holdings are in direct support of NMUSAF exhibit requirements.

Stewardship Land

| STEWARDSHIP LAND For Fiscal Year Ended September 30, 2014 (Acres in Thousands) | | | | | |
|---|-----------------------------|----------------------|------------------|------------------|----------------------|
| Facility Code | Facility Title | As of 9/30/13 | Additions | Deletions | As of 9/30/14 |
| 9110 | Government Owned Land | 1,566 | 0 | 0 | 1,566 |
| 9111 | State Owned Land | 0 | 0 | 0 | 0 |
| 9120 | Withdrawn Public land | 6,269 | 0 | 1 | 6,268 |
| 9130 | Licensed and Permitted Land | 731 | 4 | 0 | 735 |
| 9140 | Public Land | 0 | 0 | 0 | 0 |
| 9210 | Land Easement | 161 | 0 | 0 | 161 |
| 9220 | In-leased Land | 103 | 0 | 0 | 103 |
| 9230 | Foreign Land | 296 | 0 | 0 | 296 |
| Grand Total | | | | | 9,129 |
| Total - All Lands | | | | | |
| Total - Stewardship Lands | | | | | |

Stewardship Land represents land rights owned by the Federal Government, but not acquired for, or in connection with, items of General Property, Plant, and Equipment (PP&E). "Acquired for or in connection with" is defined as including land acquired with the intent to construct general PP&E and land acquired in combination with general PP&E. Without exception, all land provided to the Air Force from the public domain, or at no cost, shall be classified as Stewardship Land, regardless of its use.

The Air Force has 9,129,030 acres of mission-essential Stewardship Land under its administration. Land purchased by the Air Force with the intent to construct buildings or facilities is considered PP&E and is reported on the balance sheet. All stewardship land, as reported, is in acceptable condition, based on designated use.

REAL PROPERTY DEFERRED MAINTENANCE

| Real Property Deferred Maintenance For Fiscal Year Ended September 30, 2014 (\$ in Millions) | | | |
|---|--------------------------------|---|-------------------|
| Property Type | Plant Replacement Value | Required Work (Deferred Maintenance) | Percentage |
| Category 1: Buildings, Structures, and Utilities (Enduring Facilities) | \$220,242 | \$22,986 | 10.4% |
| Category 2: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement) | \$10,798 | \$11.5 | 0.1% |
| Category 3: Buildings, Structures, and Utilities (Heritage Assets) | \$31,988 | \$2,780 | 8.7% |

Condition Assessment Survey Method - The deferred maintenance figures in column 2 consist of the current known maintenance and repair requirements needed to correct facility deficiencies in the AF inventory. AF Q-Ratings have historically not been based off direct condition assessments, but represent identified requirements by engineers at the installation level. However, starting in 2013 the Air Force has begun implementing a sustainment management system (SMS) condition assessment method, including contract condition inspections at the installations and training the in-house personnel. Implementation is estimated to take about five years. In the meantime, as the Q-Ratings (called Facility Condition Index (FCI) in the SMS) are available, we use them in the Facility Quality Rating reporting as part of the annual report on real property to OSD. The figures in this report contain a mix of inspection data and requirements identified by installation engineers.

The figures in Column 1 were calculated based off of an estimate of the current aggregate PRV of all facilities (buildings, structures, and utilities) in the AF Real Property inventory of which the DoD has ownership interest broken down by enduring, excess, and heritage.

Ownership interest includes assets that AF holds title to, as opposed to those assets owned by foreign governments, leased facilities, out-grants, or other federal and non-federal entities.

The figures in this report are similar to the last report submitted, with the exception of Heritage Assets. The method to identify Heritage Assets was updated to conform to the codes that OSD identifies as having Historic Status in the annual Real Property report. The AF previously did not include all the historic status codes. Once the change was made to incorporate additional historic status codes, the PRV and the deferred maintenance increased significantly (PRV from \$9B to \$32B, and DM from \$927M to \$2.8B) but the relative percentage of DM/PRV remained close to the same (10.3% to 8.7%).

| Military Equipment Deferred Maintenance For Fiscal Year Ended September 30, 2013 (\$ in Thousands) | | | |
|---|--------------------------|-----------------------|-------------------|
| Major Categories | PB-45 Amounts | Adjustments | Total |
| 1. Aircraft | \$ 2,125,217 | \$ (2,042,636) | \$82,581 |
| 2. Automotive Equipment | 7,013 | (7,013) | 0 |
| 3. Combat Vehicles | 18,950 | (18,950) | 0 |
| 4. Construction Equipment | 0 | 0 | 0 |
| 5. Electronic and Communications Systems | 479,758 | (465,258) | 14,500 |
| 6. Missiles | 64,938 | (64,938) | 0 |
| 7. Ships | 0 | 0 | 0 |
| 8. Ordnance Weapons and Munitions | 4,173 | (3,984) | 189 |
| 9. General Purpose Equipment | 47,710 | (43,710) | 4,000 |
| 10. All Other Items Not Identified to Above Categories | 10,154 | (10,154) | 0 |
| Total | \$ 2,757,913 | \$ (2,656,643) | \$ 101,270 |

General Fund

Fiscal Year 2014

Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 7, 2014

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Air Force General Fund FY 2014 and
FY 2013 Basic Financial Statements (Report No. DODIG-2015-025)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," as amended, requires the DoD Inspector General to audit the accompanying Air Force General Fund consolidated balance sheet as of September 30, 2014, and 2013, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, statement of custodial activity, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of Air Force management. Management is responsible for (1) preparing financial statements that conform with generally accepted accounting principles in the United States (U.S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the Air Force's financial management systems fully comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 14-02, "Audit Requirements for Federal Financial Statements," October 21, 2013. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that Air Force General Fund FY 2014 and FY 2013 Basic Financial Statements would not substantially conform to U.S. GAAP and that Air Force financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2014. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin 14-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force FY 2014 and FY 2013 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Emphasis of Matter

As discussed in Note 1 and 10 to the basic financial statements, the Air Force has elected to change its capitalization thresholds for General Property, Plant, and Equipment in FY 2014. We did not modify our opinion with respect to this matter.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Air Force management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements; these elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," September 18, 2014, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of the Department of Defense Audited Financial Statements."

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic financial statements, and compliance with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether the Air Force complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

See Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller). Air Force officials stated they are working to resolve the problems this report outlines.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the DoD Office of Inspector General. It is not intended to be used and should not be used by anyone else.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Air Force's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances for the purposes of expressing our opinion on the basic financial statements, but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that Air Force personnel accumulated, recorded, and reported accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting, and we do not do so. However, the following material weaknesses and significant deficiencies exist that could adversely affect the Air Force's financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Air Force's financial statements will not be prevented, or detected and corrected on a timely basis. The following material weaknesses continue to exist.

Financial Management Systems. Statement of Federal Financial Accounting Concepts No. 1 "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purposes authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure the proper

safeguarding of assets to deter fraud, waste, and abuse and provide adequate support for performance measurement information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of the Air Force financial management and feeder systems did not allow it to collect and record financial information based on a full-accrual accounting basis. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, the Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

Operating Materials and Supplies. The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," to use the historical cost to value its Operating Materials and Supplies inventory. This statement also requires that an expense be recorded for Operating Materials and Supplies when the user consumes such items. The Air Force has acknowledged that it did not always use the consumption method to recognize the related expense for significant amounts of Operating Materials and Supplies. Accordingly, management was not certain that the Operating Materials and Supplies balances reported in its Basic Financial Statements were accurate.

Contractor-Managed/Possessed Property–Operating Materials and Supply. The Air Force did not have assurance over the existence and completeness of government furnished property (Operating Materials and Supplies) in the possession of contractors. The contractor-managed property was not accounted for in an Air Force–accountable property system of record.

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force has acknowledged that despite its implementation of a new system to improve its controls over recording real property, construction-in-progress, and related expenses, additional corrective actions including improving supporting documentation were required prior to the validation of real-property financial reporting. This validation was required to ensure real-property reporting did not materially misstate General Property, Plant, and Equipment.

Government Property in Possession of Contractors. Statement of Federal Financial Accounting Standards No. 6, “Accounting for Property, Plant, and Equipment,” requires that the Government report on its Balance Sheet the property and equipment in the possession of a contractor for use in accomplishing a contract. Government property should be accounted for based on the nature of the item, regardless of who has possession. The Air Force has acknowledged that its balance did not include the cost of all Government-furnished material in the possession of contractors where such value exceeds the capitalization threshold. As a result, the Air Force did not reliably report the value of its property and material in the possession of contractors.

Environmental Liabilities. The Air Force could not support its environmental clean-up cost estimates as recorded in the Air Force Real Property Agency management information system. This system provides unsupported cost information for reporting in the annual financial statements.

Statement of Net Cost. Statement of Federal Financial Accounting Concepts No. 2, “Entity and Display,” requires that that Statement of Net Cost present gross and net cost information for major organization and programs and data related to its outputs and outcomes. The Air Force acknowledged that it accumulates the amounts reported in its Statement of Net Cost by major appropriation groups funded by Congress and not by major organization and programs, as required. In addition, the Air Force did not accumulate cost information in accordance with U.S. GAAP. It presented the amounts for the General Fund based on budgetary obligations, disbursements, and collections, with adjustments made for only major items of known accruals and imputed expenses. Thus, the Statement of Net Cost may not report all actual costs or may report costs not actually incurred.

Intragovernmental Eliminations. Air Force accountants did not always identify intragovernmental trading partners when recording transactions. Thus, the Air Force could not properly eliminate all transactions among its internal organizational elements. In addition, the Air Force could not reconcile intragovernmental accounts receivable, accounts payable, and revenues for transactions between its DoD and other Federal trading partners. This may prevent the Air Force from properly eliminating all of its intragovernmental transactions.

Accounting Entries. The Air Force acknowledged that it continued to enter material amounts of accounting adjustments without adequate detailed transaction support. Additionally, there were material transactions that the Air Force did not properly record in the accounting records underlying the Basic Financial Statements or the disclosed notes to the Basic Financial Statements. The lack of adequate supporting documentation for material adjustments prevents an audit of the related financial statement amounts.

Reconciliation of Net Cost of Operations to Budget. Statement of Federal Financial Accounting Standards No. 7, "Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of resources obligated during the accounting period to the net cost of operations for that period. The Air Force accomplishes this through Note 21, "Reconciliation of Net Cost of Operations to Budget," to the Basic Financial Statements. However, as we state in the preceding paragraphs, the amounts presented in the Consolidated Statement of Net Costs and assets and liabilities reported in the Balance Sheet may be inaccurate. As a result, the Air Force may have not accurately reconciled budgetary amounts to actual proprietary expenses and assets and liabilities.

Previously Identified Significant Deficiencies

Management acknowledged that previously identified significant deficiencies continue to exist. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. The following deficiencies continue to exist.

- **Fund Balance With Treasury.** Air Force management acknowledged that further improvements were required to enable the Fund Balance With Treasury reconciliation process to reduce the amount of unresolved reconciling items that were outstanding in excess of Treasury guidelines of 60 days. The Air Force implementation of this internal control to reconcile its balances to the Treasury by itself does not ensure that Fund Balance With Treasury is ready for audit or presented fairly in accordance with U.S. generally accepted accounting principles.
- **Accounts Receivable.** The Air Force did not properly reconcile and support the validity of the Accounts Receivable financial statement line item due to

reportable conditions related to intra-governmental trading partner eliminations and proper accrual accountability and support.

- **Accounts Payable.** The Air Force did not ensure the accuracy of the amount of Accounts Payable financial statement line item because there were reportable conditions identified in the areas of intra-governmental trading partner eliminations, accruals, supporting documentation, and a lack of reconciliation of the Open Document Listing to ensure accounting data is properly recorded. These reportable conditions result in an inability to properly reconcile and support the validity of Accounts Payable.
- **Reimbursable Programs.** Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires the Air Force to track the cost of performing work reimbursed by other Government entities or by non-Federal customers. Statement of Federal Financial Accounting Concepts No. 1 defines costs as a measure of resources (personnel, material, and equipment) used to accomplish the work. The Air Force has acknowledged that its reimbursable programs may not recover all billable costs incurred in the fulfillment of reimbursable orders. Specifically, the Air Force did not always identify logistical, contractual, or labor costs incurred in support of reimbursable orders; therefore, such costs were not properly billed to the customer.

These financial management control deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Air Force may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. The Air Force reported the material weaknesses described above in its FMFIA report, except for General Property, Plant, and Equipment; Statement of Net Cost; Intragovernmental Elimination; Accounting Entries; and Reconciliation of Net Cost of Operations to Budget.

Report on Compliance With Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for

compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Air Force complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As required by 31 U.S.C. § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2014, the Air Force reported no Antideficiency Act violations.

DoD Regulation 7000.14-R, “Financial Management Regulation,” volume 14, chapter 7, “Antideficiency Act Report,” limits the time from identification to reporting of Antideficiency Act violation to 15 months. Two investigations of potential Antideficiency Act violations have been open for more than 15 months.

Compliance With FFMIA Requirements

FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. The

Air Force is executing a plan to meet the September 30, 2014, deadline for audit ready Statement of Budgetary Resources. The Air Force plan states that it is deploying large information technology systems that will not be fully deployed in time to meet the FY 2014 and FY 2017 dates. Therefore, the Air Force will rely on manual controls and legacy system enhancements to meet the FY 2014 goal. The Air Force plan states that it is continuing to evaluate policy, processes, and system enhancements for sustainability and cost effectiveness.

For FY 2014, the Air Force did not substantially comply with FFMIA. The Air Force acknowledged to us that Air Force General Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2014. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.

Working Capital Fund

Principal Statements

Fiscal Year 2014

The FY 2014 Department of the Air Force Working Capital Fund Principal Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14-R, Volume 6B. The statements and related notes summarize financial information for individual activity groups and activities within the Working Capital Fund for the fiscal year ending September 30, 2014, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2013.

The following statements comprise the Department of the Air Force Working Capital Fund Principal Statements:

Consolidated Balance Sheet

The Consolidated Balance Sheet presents as of September 30, 2014 and 2013 those resources owned or managed by the Air Force which are available to provide future economic benefits (assets); amounts owed by the Air Force that will require payments from those resources or future resources (liabilities); and residual amounts retained by the Air Force, comprising the difference (net position)

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position presents the change in the Air Force's net position resulting from the net cost of Air Force's operations, budgetary financing sources other than exchange revenues, and other financing sources for the years ended September 30, 2014 and 2013.

Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents the budgetary resources available to the Air Force during FY 2014 and 2013, the status of these resources at September 30, 2014 and 2013, and the outlay of budgetary resources for the years ended September 30, 2014 and 2013.

Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the Air Force's operations for the years ended September 30, 2014 and 2013. The Air Force's net cost of operations includes the gross costs incurred by the Air Force less any exchange revenue earned from Air Force activities.

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's Circular A-136, "Financial Reporting Requirements."

Air Force Working Capital Fund
CONSOLIDATED BALANCE SHEET
As of September 30, 2014 and 2013
(\$ in Thousands)

| | <u>2014 Consolidated</u> | <u>2013 Consolidated</u> |
|--|-----------------------------|-----------------------------|
| ASSETS (Note 2) | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | \$ 815,321 | \$ 730,327 |
| Accounts Receivable (Note 5) | 758,623 | 541,912 |
| Other Assets (Note 6) | 258,260 | 145,687 |
| Total Intragovernmental Assets | <u>\$ 1,832,204</u> | <u>\$ 1,417,926</u> |
| Accounts Receivable, Net (Note 5) | 7,161 | 2,051 |
| Inventory and Related Property, Net (Note 9) | 24,110,219 | 25,273,424 |
| General Property, Plant and Equipment, Net (Note 10) | 1,561,139 | 1,533,884 |
| Other Assets (Note 6) | 203,789 | 184,878 |
| TOTAL ASSETS | <u><u>\$ 27,714,512</u></u> | <u><u>\$ 28,412,163</u></u> |
| STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 10) | | |
| LIABILITIES (Note 11) | | |
| Intragovernmental: | | |
| Accounts Payable (Note 12) | \$ 208,601 | \$ 165,321 |
| Other Liabilities (Note 15 & 16) | 53,367 | 53,083 |
| Total Intragovernmental Liabilities | <u>\$ 261,968</u> | <u>\$ 218,404</u> |
| Accounts Payable (Note 12) | \$ 304,751 | \$ 588,918 |
| Military Retirement and Other Federal Employment Benefits (Note 17) | 217,403 | 220,332 |
| Other Liabilities (Note 15 and Note 16) | 313,607 | 267,970 |
| TOTAL LIABILITIES | <u><u>\$ 1,097,729</u></u> | <u><u>\$ 1,295,624</u></u> |
| COMMITMENTS AND CONTINGENCIES (NOTE 16) | | |
| NET POSITION | | |
| Unexpended Appropriations - Other Funds | 6,801 | 11,364 |
| Cumulative Results of Operations - Other Funds | 26,609,982 | 27,105,175 |
| TOTAL NET POSITION | <u><u>\$ 26,616,783</u></u> | <u><u>\$ 27,116,539</u></u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 27,714,512</u></u> | <u><u>\$ 28,412,163</u></u> |

Air Force Working Capital Fund**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**

For the periods ended September 30, 2014 and 2013

| (\$ in Thousands) | 2014 Consolidated | 2013 Consolidated |
|---|-------------------|-------------------|
| CUMULATIVE RESULTS OF OPERATIONS | | |
| Beginning Balances | \$ 27,105,175 | \$ 28,053,670 |
| Beginning balances, as adjusted (Includes Funds from | 27,105,175 | 28,053,670 |
| Dedicated Collections - See Note 23) | | |
| Budgetary Financing Sources: | | |
| Appropriations used | 66,294 | 54,468 |
| Transfers-in/out without reimbursement | (128,336) | 108,705 |
| Other Financing Sources: | | |
| Transfers-in/out without reimbursement (+/-) | 22,318 | (10,337) |
| Imputed financing from costs absorbed by others | 170,169 | 165,476 |
| Other (+/-) | 292,167 | 145,282 |
| Total Financing Sources (Includes Funds from Dedicated | 422,612 | 463,594 |
| Collections - See Note 23) | | |
| Net Cost of Operations (+/-) (Includes Funds from | 917,805 | 1,412,089 |
| Dedicated Collections - See Note 23) | | |
| Net Change | (495,193) | (948,495) |
| Cumulative Results of Operations (Includes Funds from | 26,609,982 | 27,105,175 |
| Dedicated Collections - See Note 23) | | |
| UNEXPENDED APPROPRIATIONS | | |
| Beginning Balances (Includes Funds from Dedicated | \$ 11,364 | \$ 20,380 |
| Collections - See Note 23) | | |
| Beginning balances, as adjusted | 11,364 | 20,380 |
| Budgetary Financing Sources: | | |
| Appropriations transferred-in/out | 61,731 | 45,452 |
| Appropriations used | (66,294) | (54,468) |
| Total Budgetary Financing Sources (Includes Funds from | (4,563) | (9,016) |
| Dedicated Collections - See Note 23) | | |
| Unexpended Appropriations (Includes Funds from | 6,801 | 11,364 |
| Dedicated Collections - See Note 23) | | |
| Net Position | 26,616,783 | 27,116,539 |

Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Combined | 2013 Combined |
|---|----------------------|----------------------|
| Budgetary Resources: | | |
| Unobligated balance brought forward, Oct 1 | 545,223 | 106,559 |
| Unobligated balance brought forward, Oct 1, as adjusted, \$ | 545,223 | \$ 106,559 |
| Recoveries of prior year unpaid obligations | 22,741 | 13,581 |
| Other changes in unobligated balance (+ or -) | (151,077) | 95,124 |
| Unobligated balance from prior year budget authority, net | 416,887 | 215,264 |
| Appropriations (discretionary and mandatory) | 61,731 | 45,452 |
| Contract Authority (discretionary and mandatory) | 8,812,597 | 6,478,609 |
| Spending Authority from offsetting collections | 4,688,168 | 4,227,072 |
| Total Budgetary Resources | <u>13,979,383</u> | <u>10,966,397</u> |
| Status of Budgetary Resources: | | |
| Obligations Incurred | 12,986,027 | 10,421,174 |
| Unobligated balance, end of year | | |
| Apportioned | 993,356 | 545,223 |
| Total unobligated balance, end of year | <u>993,356</u> | <u>545,223</u> |
| Total Budgetary Resources | <u>13,979,383</u> | <u>10,966,397</u> |
| Change in Obligated Balance: | | |
| Unpaid obligations: | | |
| Unpaid obligations, brought forward, Oct 1 | 6,512,461 | 7,060,232 |
| Obligations incurred | 12,986,027 | 10,421,174 |
| Outlays (gross) (-) | (12,870,730) | (10,955,364) |
| Recoveries of prior year unpaid obligations (-) | (22,741) | (13,581) |
| Unpaid obligations, end of year | 6,605,017 | 6,512,461 |
| Uncollected payments: | | |
| Uncollected pymts, Fed sources, brought forward, Oct 1 (-) | (2,950,401) | (3,113,433) |
| Change in uncollected pymts, Fed sources (+ or -) | (1,198,293) | 163,032 |
| Uncollected pymts, Fed sources, end of year (-) | (4,148,694) | (2,950,401) |
| Obligated balance, start of year (+ or -) | <u>3,562,060</u> | <u>3,946,799</u> |
| Obligated balance, end of year (+ or -) | <u>2,456,323</u> | <u>3,562,060</u> |

Air Force Working Capital Fund
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Combined | 2013 Combined |
|---|----------------------|----------------------|
| Budget Authority and Outlays, Net: | | |
| Budget authority, gross (discretionary and mandatory) | 13,562,496 | 10,751,133 |
| Actual offsetting collections (discretionary and mandatory) (-) | (13,022,329) | (10,974,997) |
| Change in uncollected customer payments from Federal | (1,198,293) | 163,032 |
| Sources (discretionary and mandatory) (+ or -) | | |
| Budget Authority, net (discretionary and mandatory) | (658,126) | (60,832) |
| Outlays, gross (discretionary and mandatory) | 12,870,730 | 10,955,364 |
| Actual offsetting collections (discretionary and mandatory) (-) | (13,022,329) | (10,974,997) |
| Outlays, net (discretionary and mandatory) | (151,599) | (19,633) |
| Agency Outlays, net (discretionary and mandatory) | (151,599) | (19,633) |

Air Force Working Capital Fund
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | 2014 Consolidated | 2013 Consolidated |
|--|--------------------------|--------------------------|
| | <hr/> | <hr/> |
| Program Costs | | |
| Gross Costs | \$ 11,120,388 | \$ 11,019,305 |
| Operations, Readiness & Support | 11,120,388 | 11,019,305 |
| | <hr/> | <hr/> |
| (Less: Earned Revenue) | (10,202,583) | (9,607,216) |
| | <hr/> | <hr/> |
| Net Cost before Losses/(Gains) from Actuarial Assumption Changes | | |
| for Military Retirement Benefits | 917,805 | 1,412,089 |
| Net Program Costs Including Assumption Changes | 917,805 | 1,412,089 |
| | <hr/> | <hr/> |
| Net Cost of Operations | \$ 917,805 | \$ 1,412,089 |
| | <hr/> <hr/> | <hr/> <hr/> |

Working Capital Fund

Fiscal Year 2014

Notes to the Principal Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements.

| | |
|----------------|--|
| Note 1. | Significant Accounting Policies |
|----------------|--|

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Air Force Working Capital Fund (AFWCF), as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the AFWCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements; and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which the AFWCF is responsible unless otherwise noted.

The AFWCF is unable to fully implement all elements of USGAAP and the OMB Circular No. A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The AFWCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistic systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The AFWCF continues to implement process and system improvements addressing these limitations.

The AFWCF currently has eight auditor identified financial statement material weaknesses: (1) financial and nonfinancial feeder systems do not contain an adequate audit trail for the proprietary and budgetary accounts, (2) AFWCF may have material amounts of account adjustments that are not adequately supported, (3) AFWCF cannot accurately identify all intragovernmental transactions by customer, which is required for eliminations when preparing consolidated financial statements, (4) the value of the AFWCF government property in possession of contractors may not be accurately reported, (5) AFWCF General Property, Plant, and Equipment (PP&E) may not be accurately valued, (6) Operating Materiel and Supplies (OM&S) are not reflected at historical cost, (7) cost of goods sold and work in progress are not recorded in accordance with the Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property", and (8) supply management systems do not provide sufficient audit trails to confirm and value the in transit inventory reported as part of inventory held for sale on the Consolidated Balance Sheet.

1.B. Mission of the Reporting Entity

The United States Air Force was created on September 18, 1947, by the National Security Act of 1947. The National Security Act Amendments of 1949 established the DoD and made the Air Force a department within DoD. The overall mission of the United States Air Force is to fly, fight and win...in air, space and cyberspace. Our priorities are: (1) continue to strengthen the nuclear enterprise, (2) partner with Joint and Coalition team to win today's fight, (3) develop and care for Airmen and their families, (4) modernize our air and space inventories, organizations, and training, and (5) recapture acquisition excellence.

The stock and industrial revolving fund accounts were created by the National Security Act of 1947, as amended in 1949 and codified in United States Code 10 Section 2208. The revolving funds were established as a means to more effectively control the cost of work performed by DoD. The DoD began operating under the revolving fund concept on July 1, 1951.

AFWCF operations consist of two major activity groups: Consolidated Sustainment Activity Group (CSAG) and the Supply Management Activity Group - Retail (SMAG-R). All AFWCF CSAG and SMAG-R activities establish rates based on full cost recovery. If an operating loss or

gain is incurred, the activity will make the appropriate adjustment in following years' prices to recoup the loss or return the gain to their customers.

The mission of CSAG is supply management of repairable and consumable items, and maintenance activities. Supply Division activities of CSAG are authorized to procure and manage repairable and consumable items for which the Air Force is the Inventory Control Point. The Supply Division manages more than 106 thousand items that are generally related to weapon systems and ground support, and include both depot level repairables and non-depot level repairables.

Maintenance Division activities of CSAG are authorized to perform: (a) overhaul, conversion, reclamation, progressive maintenance, modernization, software development, storage, modification, and repair of aircraft, missiles, engines, accessories, components, and equipment; (b) the manufacture of parts and assemblies required to support the foregoing; and (c) the furnishing of other authorized services or products for the Air Force and other agencies of the DoD. As directed by the Air Force Materiel Command or higher authority, the Maintenance Division may furnish the above mentioned products or services to agencies of other departments or instrumentalities of the U.S. Government, and to private parties and other agencies, as authorized by law.

The SMAG-R consists of three business divisions: General Support Division (GSD), Medical-Dental Division, and Air Force Academy Division. GSD procures and manages nearly 1.1 million consumable supply items related to maintenance, flying hour program, and installation functions. The majority are used in support of field and depot maintenance of aircraft, ground and airborne communication systems, and other support systems and equipment. The Medical-Dental Division procures and manages nearly 9 thousand different medical supply items and equipment necessary to maintain an effective Air Force Health Care system for the active military, retirees and their dependents. The Air Force Academy Division procures and manages a retail inventory of uniforms, academic supplies and other recurring issue requirements for the Cadet Wing of the United States Air Force Academy. Inventory procurement is only for mandatory items as determined by the Cadet Uniform Board.

1.C. Appropriations and Funds

The AFWCF receives appropriations and funds as general and working capital (revolving) funds. The AFWCF uses these appropriations and funds to execute its missions and subsequently report on resource usage.

Working Capital Funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

1.D. Basis of Accounting

The AFWCF is unable to meet all full accrual accounting requirements. This is primarily because many of the AFWCF's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

The AFWCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of AFWCF sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial

feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated AFWCF level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all AFWCF's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by USGAAP, AFWCF's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The CSAG Maintenance Division recognizes revenue according to the percentage of completion method. The CSAG Supply Division and SMAG-R recognize revenue based on flying hours executed and the sale of inventory items.

1.F. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable and unbilled revenue. In the case of OM&S, the consumption method is used. Under the consumption method, OM&S would be expensed when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The AFWCF continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminates intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the AFWCF cannot accurately identify intragovernmental transactions by customer because AFWCF's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements that will enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. While AFWCF is unable to fully reconcile intragovernmental transactions with all federal agencies, AFWCF is able to reconcile balances pertaining to Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Imputed Financing represents the costs paid on behalf of the AFWCF by another Federal entity. The AFWCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; and (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees' Compensation Act.

The DoD's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and its related costs to federal

agencies. The DoD's financial statements do not report any public debt, interest or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to DoD.

1.H. Transactions with Foreign Governments and International Organizations

Each year, AFWCF sells defense articles and services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The AFWCF's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the AFWCF's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBWT) account. On a monthly basis, AFWCF's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

Not applicable.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.L. Direct Loans and Loan Guarantees

Not applicable.

1.M. Inventories and Related Property

The AFWCF values approximately 99% of its resale inventory using the moving average cost method and reports the remaining 1% of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with SFFAS No. 3, "Accounting for Inventory and Related Property." Additionally, these systems cannot produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (PL 104-208). The AFWCF is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most

transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with SFFAS No. 3.

The AFWCF manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in AFWCF's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The AFWCF holds materiel based on military need and support for contingencies. The DoD is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

Related property includes OM&S which is valued at standard purchase price. The AFWCF uses the consumption method of accounting for OM&S.

The AFWCF recognizes excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of \$0 pending development of an effective means of valuing such materiel.

Inventory available and purchased for resale includes consumable spare and repair parts and repairable items owned and managed by AFWCF. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The AFWCF often relies on weapon systems and machinery no longer in production. As a result, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with its associated costs incurred in the delivery of maintenance services.

1.N. Investments in U.S. Treasury Securities

Not applicable.

1.O. General Property, Plant and Equipment

The AFWCF's General Property, Plant, and Equipment (PP&E) capitalization threshold is \$250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 thousand for equipment and \$20 thousand for real property) and are carried at the remaining net book value.

The WCF capitalizes all PP&E used in the performance of its mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

When it is in the best interest of the government, the AFWCF provides government property to contractors to complete contract work. The AFWCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on AFWCF's Balance Sheet.

The DoD developed policy and a reporting process for contractors with government furnished equipment that provides appropriate General PP&E information for financial statement reporting. The DoD requires AFWCF to maintain, in their property systems, information on all property furnished to contractors. These actions are structured to capture and report the information

necessary for compliance with federal accounting standards. The AFWCF has not fully implemented this policy primarily due to system limitations.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The AFWCF has implemented this policy.

1.Q. Leases

Not applicable.

1.R. Other Assets

Other assets includes those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on AFWCF's Balance Sheet.

The AFWCF conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, AFWCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. It is DoD policy to record certain contract financing payments as other assets. The AFWCF has not fully implemented this policy primarily due to system limitations.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

1.S. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The AFWCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The AFWCF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

1.T. Accrued Leave

The AFWCF reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed as taken. The liabilities are based on current pay rates.

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

Not applicable.

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections may be evidenced by the availability of corroborating documentation that would generally support the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the [Component/Department] Accounts Payable and Receivable trial balances prior to validating underlying transactions required to establish the Accounts Payable/Receivable were previously made. As a result, misstatements of reported Accounts Payable and Receivables are likely present in the [Component/Department] financial statements.

Due to noted material weaknesses in current accounting and financial feeder systems, the DoD is generally unable to determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payables/receivable at the time accounting reports are prepared. Accordingly, the DoD policy is to allocate supported undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

Not applicable.

1.Y. Military Retirement and Other Federal Employment Benefits

Not applicable.

1.Z. Significant Events

Not applicable.

| | |
|----------------|-------------------------|
| Note 2. | Nonentity Assets |
|----------------|-------------------------|

| As of September 30 | 2014 | 2013 |
|------------------------------------|---------------|---------------|
| (Amounts in thousands) | | |
| 1. Intragovernmental Assets | | |
| A. Fund Balance with Treasury | \$ 0 | \$ 0 |
| B. Accounts Receivable | 0 | 0 |
| C. Other Assets | 0 | 0 |
| D. Total Intragovernmental Assets | \$ 0 | \$ 0 |
| 2. Nonfederal Assets | | |
| A. Cash and Other Monetary Assets | \$ 0 | \$ 0 |
| B. Accounts Receivable | 106 | 79 |
| C. Other Assets | 0 | 0 |
| D. Total Nonfederal Assets | \$ 106 | \$ 79 |
| 3. Total Nonentity Assets | \$ 106 | \$ 79 |
| 4. Total Entity Assets | \$ 27,714,406 | \$ 28,412,084 |
| 5. Total Assets | \$ 27,714,512 | \$ 28,412,163 |

Asset accounts are categorized as either entity or nonentity. Entity accounts consist of resources that are available for use in the operations of the entity.

Nonentity assets are assets for which the AFWCF maintains stewardship accountability and reporting responsibility, but are not available for the AFWCF's normal operations.

These nonentity assets are interest, penalties and administrative fees that will be forwarded to the General Fund of the U.S. Treasury upon collection.

Note 3. Fund Balance with Treasury

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|-------------------|-------------------|
| 1. Fund Balances | | |
| A. Appropriated Funds | \$ 0 | \$ 0 |
| B. Revolving Funds | 815,321 | 730,327 |
| C. Trust Funds | 0 | 0 |
| D. Special Funds | 0 | 0 |
| E. Other Fund Types | 0 | 0 |
| F. Total Fund Balances | <u>\$ 815,321</u> | <u>\$ 730,327</u> |
| 2. Fund Balances Per Treasury Versus Agency | | |
| A. Fund Balance per Treasury | \$ 1,529,220 | \$ 1,457,607 |
| B. Fund Balance per AFWCF | 815,321 | 730,327 |
| 3. Reconciling Amount | <u>\$ 713,899</u> | <u>\$ 727,280</u> |

The reconciling amount represents \$713.9 million for the United States Transportation Command (USTC), which is reported by the U.S. Treasury as part of the AFWCF. However, for the purposes of Audited Financial Statements (AFS), USTC is included with the Other Defense Organizations reporting which is separate from the AFWCF. Therefore, USTC funds are not included in the AFWCF AFS.

Status of Fund Balance with Treasury

| As of September 30 | 2014 | | 2013 | |
|--|------|-------------|------|-------------|
| (Amounts in thousands) | | | | |
| 1. Unobligated Balance | | | | |
| A. Available | \$ | 993,356 | \$ | 545,223 |
| B. Unavailable | | 0 | | 0 |
| 2. Obligated Balance not yet Disbursed | \$ | 6,605,017 | \$ | 6,512,461 |
| 3. Nonbudgetary FBWT | \$ | 0 | \$ | 0 |
| 4. NonFBWT Budgetary Accounts | \$ | (6,783,052) | \$ | (6,327,357) |
| 5. Total | \$ | 815,321 | \$ | 730,327 |

The Status of Fund Balance with Treasury (FBWT) reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists of funds temporarily precluded from obligation by law. Certain unobligated balances may be restricted to future use and are not apportioned for current use. The AFWCF has no restrictions on unobligated balances.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT. The AFWCF currently does not have a Nonbudgetary FBWT.

NonFBWT Budgetary Accounts reduces the Status of FBWT. The amount reported as NonFBWT Budgetary Accounts is comprised of contract authority, unfilled orders without advance from customers, and accounts receivable.

Note 4. Investments and Related Interest

The AFWCF has no Investments and Related Interest.

Note 5. Accounts Receivable

| As of September 30 | 2014 | | |
|--|-------------------|--|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| (Amounts in thousands) | | | |
| 1. Intragovernmental Receivables | \$ 758,623 | N/A | \$ 758,623 |
| 2. Nonfederal Receivables (From the Public) | \$ 9,640 | \$ (2,479) | \$ 7,161 |
| 3. Total Accounts Receivable | <u>\$ 768,263</u> | <u>\$ (2,479)</u> | <u>\$ 765,784</u> |

| As of September 30 | 2013 | | |
|--|-------------------|--|--------------------------|
| | Gross Amount Due | Allowance For Estimated Uncollectibles | Accounts Receivable, Net |
| (Amounts in thousands) | | | |
| 1. Intragovernmental Receivables | \$ 541,912 | N/A | \$ 541,912 |
| 2. Nonfederal Receivables (From the Public) | \$ 9,197 | \$ (7,146) | \$ 2,051 |
| 3. Total Accounts Receivable | <u>\$ 551,109</u> | <u>\$ (7,146)</u> | <u>\$ 543,963</u> |

The accounts receivable represent the AFWCF's claim for payment from other entities. The AFWCF only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

| | |
|----------------|---------------------|
| Note 6. | Other Assets |
|----------------|---------------------|

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|--------------------------|--------------------------|
| 1. Intragovernmental Other Assets | | |
| A. Advances and Prepayments | \$ 28 | \$ 31 |
| B. Other Assets | 258,232 | 145,656 |
| C. Total Intragovernmental Other Assets | <u>\$ 258,260</u> | <u>\$ 145,687</u> |
| 2. Nonfederal Other Assets | | |
| A. Outstanding Contract Financing Payments | \$ 183,692 | \$ 177,513 |
| B. Advances and Prepayments | 20,014 | 6,745 |
| C. Other Assets (With the Public) | 83 | 620 |
| D. Total Nonfederal Other Assets | <u>\$ 203,789</u> | <u>\$ 184,878</u> |
| 3. Total Other Assets | <u><u>\$ 462,049</u></u> | <u><u>\$ 330,565</u></u> |

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Government protecting the contract work from state or local taxation, liens or attachment by the contractor's creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Federal Government. The Federal Government does not have the right to take the work, except as provided in contract clauses related to termination or acceptance. The AFWCF is not obligated to make payment to the contractor until delivery and acceptance.

Outstanding Contract Financing Payments includes \$166.3 million in contract financing payments and an additional \$17.4 million in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. See additional discussion in Note 15, Other Liabilities.

The \$258.2 million in Intragovernmental Other Assets - Other Assets is comprised of Supply Management Activity Group's assets returned to vendors for which credit is pending. There will be no dollar payments received for this credit but vendor billings will be offset.

The \$82.9 thousand in Nonfederal Other Assets – Other Assets (With the Public) is comprised of the Consolidated Sustainment Activity Group's material receipts that have been assigned to a work order in the logistical system, but have not yet updated the accounting system.

| | |
|----------------|---------------------------------------|
| Note 7. | Cash and Other Monetary Assets |
|----------------|---------------------------------------|

The AFWCF has no Cash and Other Monetary Assets.

| | |
|----------------|--|
| Note 8. | Direct Loan and Loan Guarantees |
|----------------|--|

The AFWCF has no Direct Loan and /or Loan Guarantee Programs.

| | |
|----------------|---------------------------------------|
| Note 9. | Inventory and Related Property |
|----------------|---------------------------------------|

| As of September 30 (Amounts in thousands) | 2014 | 2013 |
|--|----------------------|----------------------|
| 1. Inventory, Net | \$ 23,965,251 | \$ 25,132,201 |
| 2. Operating Materiel & Supplies, Net | 144,968 | 141,223 |
| 3. Stockpile Materiel, Net | 0 | 0 |
| 4. Total | \$ 24,110,219 | \$ 25,273,424 |

Inventory, Net

| As of September 30 | 2014 | | | Valuation Method |
|--|------------------------|-----------------------|----------------|------------------|
| | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | |
| (Amounts in thousands) | | | | |
| 1. Inventory | | | | |
| A. Available and Purchased for Resale | \$ 13,496,287 | \$ (59,167) | 13,437,120 | MAC,FIFO,LAC |
| B. Held for Repair | 14,231,195 | (3,708,525) | 10,522,670 | LAC,MAC |
| C. Excess, Obsolete, and Unserviceable | 37,657 | (37,657) | 0 | NRV |
| D. Raw Materiel | 0 | 0 | 0 | MAC,SP,LAC |
| E. Work in Process | 5,461 | 0 | 5,461 | AC |
| F. Total | \$ 27,770,600 | \$ (3,805,349) | 23,965,251 | |

| As of September 30 | 2013 | | | Valuation Method |
|--|------------------------|-----------------------|----------------|------------------|
| | Inventory, Gross Value | Revaluation Allowance | Inventory, Net | |
| (Amounts in thousands) | | | | |
| 1. Inventory | | | | |
| A. Available and Purchased for Resale | \$ 14,728,624 | \$ (41,346) | 14,687,278 | MAC,FIFO,LAC |
| B. Held for Repair | 14,330,065 | (3,902,267) | 10,427,798 | LAC,MAC |
| C. Excess, Obsolete, and Unserviceable | 40,292 | (40,292) | 0 | NRV |
| D. Raw Materiel | 0 | 0 | 0 | MAC,SP,LAC |
| E. Work in Process | 17,125 | 0 | 17,125 | AC |
| F. Total | \$ 29,116,106 | \$ (3,983,905) | 25,132,201 | |

Legend for Valuation Methods:

LAC = Latest Acquisition Cost

NRV = Net Realizable Value

MAC = Moving Average Cost

SP = Standard Price

LCM = Lower of Cost or Market

AC = Actual Cost

FIFO = First-In-First-Out

Restrictions

There are no restrictions on the use, sale, or disposition of inventory except for War Reserve Materiel and nuclear related spare parts.

General Composition of Inventory

Inventory includes weapon system consumable and reparable parts, base supply items, and medical-dental supplies. Inventory is tangible personal property that is held for sale or held for repair for eventual sale, in the process of production for sale, or to be consumed in the production of goods for sale or in the provision of services for a fee.

Definitions

Inventory Available and Purchased for Resale includes consumable and reparable parts owned and managed by AFWCF.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because AFWCF often relies on weapon systems and machinery no longer in production, AFWCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force.

Excess, Obsolete, and Unserviceable inventory consists of obsolete, excess to requirements, or items that cannot be economically repaired and are awaiting disposal.

Work in Process balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead, and other direct costs. Work in Process also includes the value of finished products or completed services pending the submission of bills to the customer.

Operating Materiel and Supplies, Net

| As of September 30 | 2014 | | | Valuation Method |
|--------------------|------------------|-----------------------|-----------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | |

(Amounts in thousands)

1. OM&S Categories

| | | | | | | | |
|--|-----------|----------------|-----------|----------|-----------|----------------|--------------|
| A. Held for Use | \$ | 144,968 | \$ | 0 | \$ | 144,968 | SP, LAC, MAC |
| B. Held for Repair | | 0 | | 0 | | 0 | SP, LAC, MAC |
| C. Excess, Obsolete, and Unserviceable | | 0 | | 0 | | 0 | NRV |
| D. Total | \$ | 144,968 | \$ | 0 | \$ | 144,968 | |

| As of September 30 | 2013 | | | Valuation Method |
|--------------------|------------------|-----------------------|-----------|------------------|
| | OM&S Gross Value | Revaluation Allowance | OM&S, Net | |

(Amounts in thousands)

1. OM&S Categories

| | | | | | | | |
|--|-----------|----------------|-----------|----------|-----------|----------------|--------------|
| A. Held for Use | \$ | 141,223 | \$ | 0 | \$ | 141,223 | SP, LAC, MAC |
| B. Held for Repair | | 0 | | 0 | | 0 | SP, LAC, MAC |
| C. Excess, Obsolete, and Unserviceable | | 0 | | 0 | | 0 | NRV |
| D. Total | \$ | 141,223 | \$ | 0 | \$ | 141,223 | |

Legend for Valuation Methods:

| | | |
|-------------------------------|-------------------------------|---------------------------|
| LAC = Latest Acquisition Cost | NRV = Net Realizable Value | MAC = Moving Average Cost |
| SP = Standard Price | LCM = Lower of Cost or Market | |
| AC = Actual Cost | FIFO = First-In-First-Out | |

General Composition of Operating Materiel and Supplies

Operating Materiel and Supplies (OM&S) includes consumable parts and supplies used to remanufacture spare parts and repair weapons systems.

Restrictions

There are no restrictions on the use, sale, or disposition of OM&S.

Definition

Held for Use includes consumable parts and supplies.

Stockpile Materiel, Net

The AFWCF as no Stockpile Materials.

Note 10.**General PP&E, Net**As of September
30

2014

Depreciation/
Amortization
MethodService
LifeAcquisition
Value(Accumulated Depreciation/
Amortization)Net Book
Value(Amounts in
thousands)**1. Major Asset
Classes**

A.Land

N/A

N/A

\$ 0

N/A

\$ 0

B.Buildings,
Structures, and
Facilities

S/L

20 Or 40

1,327,159

\$ (779,276)

547,883

C.Leasehold
Improvements

S/L

lease
term

0

0

0

D.Software

S/L

2-5 Or 10

1,138,044

(1,090,072)

47,972

E.General
Equipment

S/L

Various

3,201,904

(2,239,111)

962,793

F.Assets Under
Capital Lease

S/L

lease
term

0

0

0

G. Construction-
in- Progress

N/A

N/A

2,491

N/A

2,491

H.Other

0

0

0

I. Total General
PP&E

\$ 5,669,598

\$

(4,108,459)

\$

1,561,139

| As of September 30 | 2013 | | | | |
|---|---|---------------------|----------------------|---|-------------------|
| | Depreciation/ Amortization Method | Service Life | Acquisition Value | (Accumulated Depreciation/ Amortization) | Net Book Value |
| (Amounts in thousands) | | | | | |
| 1. Major Asset Classes | | | | | |
| A.Land | N/A | N/A | \$ 0 | N/A | \$ 0 |
| B.Buildings, Structures, and Facilities | S/L | 20 Or 40 lease term | 1,542,038 | \$ (1,025,448) | 516,590 |
| C.Leasehold Improvements | S/L | 2-5 Or 10 | 0 | 0 | 0 |
| D.Software | S/L | Various lease term | 1,166,183 | (1,082,579) | 83,604 |
| E.General Equipment | S/L | Various lease term | 3,103,028 | (2,177,793) | 925,235 |
| F.Assets Under Capital Lease | S/L | | 0 | 0 | 0 |
| G. Construction-in- Progress | N/A | N/A | 8,455 | N/A | 8,455 |
| H.Other | | | 0 | 0 | 0 |
| I. Total General PP&E | | | \$ 5,819,704 | \$ (4,285,820) | \$ 1,533,884 |

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

AFWCF does not have any restrictions on the use or convertibility of General PP&E.

The DoD increased capitalization thresholds for PP&E assets acquired after September 30, 2013. The new guidelines require capitalization of working capital fund assets with an acquisition price of \$250,000 or greater. Assets purchased before October 1, FY 2014 continue to be capitalized and depreciated using the former thresholds of \$100,000 for equipment, IT and internally developed software and \$20,000 for real property. General PP&E assets are disclosed in the above tables using the new capitalization thresholds. The Air Force is unable at this time to disclose for comparability purposes, tables of PP&E calculated using the former capitalization thresholds for assets purchased during FY 2014.

Assets Under Capital Lease

The AFWCF has no assets under capital lease.

| | |
|-----------------|---|
| Note 11. | Liabilities Not Covered by Budgetary Resources |
|-----------------|---|

| As of September 30 | 2014 | 2013 |
|---|---------------------|---------------------|
| (Amounts in thousands) | | |
| 1. Intragovernmental Liabilities | | |
| A. Accounts Payable | \$ 0 | \$ 0 |
| B. Debt | 0 | 0 |
| C. Other | 43,403 | 44,651 |
| D. Total Intragovernmental Liabilities | \$ 43,403 | \$ 44,651 |
| 2. Nonfederal Liabilities | | |
| A. Accounts Payable | \$ 0 | \$ 0 |
| B. Military Retirement and Other Federal Employment Benefits | 217,403 | 220,332 |
| C. Environmental and Disposal Liabilities | 0 | 0 |
| D. Other Liabilities | 0 | 0 |
| E. Total Nonfederal Liabilities | \$ 217,403 | \$ 220,332 |
| 3. Total Liabilities Not Covered by Budgetary Resources | \$ 260,806 | \$ 264,983 |
| 4. Total Liabilities Covered by Budgetary Resources | \$ 836,923 | \$ 1,030,641 |
| 5. Total Liabilities | \$ 1,097,729 | \$ 1,295,624 |

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided.

The \$43.4 million in Intragovernmental Liabilities - Other Liabilities is comprised of the portion of the total Air Force Federal Employee's Compensation Act (FECA) liability allocated to the AFWCF.

Military Retirement and Other Federal Employment Benefits consists of FECA actuarial liabilities not due and payable during the current fiscal year. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details and disclosures.

Note 12. Accounts Payable

| As of September 30 | 2014 | | |
|--|-------------------|--|-------------------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |
| (Amounts in thousands) | | | |
| 1. Intragovernmental Payables | \$ 208,601 | \$ N/A | \$ 208,601 |
| 2. Nonfederal Payables (to the Public) | 304,751 | 0 | 304,751 |
| 3. Total | \$ 513,352 | \$ 0 | \$ 513,352 |

| As of September 30 | 2013 | | |
|--|-------------------|--|-------------------|
| | Accounts Payable | Interest, Penalties, and Administrative Fees | Total |
| (Amounts in thousands) | | | |
| 1. Intragovernmental Payables | \$ 165,321 | \$ N/A | \$ 165,321 |
| 2. Nonfederal Payables (to the Public) | 588,918 | 0 | 588,918 |
| 3. Total | \$ 754,239 | \$ 0 | \$ 754,239 |

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by AFWCF. The AFWCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable. Accounts payable was adjusted by reclassifying amounts between federal and nonfederal accounts payable and applying both supported and unsupported undistributed disbursements at the reporting entity level.

Note 13. Debt

The AFWCF has no Debt.

Note 14. Environmental and Disposal Liabilities

The AFWCF has no Environmental Liabilities.

| | |
|-----------------|--------------------------|
| Note 15. | Other Liabilities |
|-----------------|--------------------------|

As of September 30

2014

Current
LiabilityNoncurrent
Liability

Total

(Amounts in thousands)

1. Intragovernmental

| | | | | | | |
|----------------------------------|----|--------|----|--------|----|--------|
| A. Advances from Others | \$ | 0 | \$ | 0 | \$ | 0 |
| B. Deposit Funds and Suspense | | | | | | |
| Account Liabilities | | 0 | | 0 | | 0 |
| C. Disbursing Officer Cash | | 0 | | 0 | | 0 |
| D. Judgment Fund Liabilities | | 0 | | 0 | | 0 |
| E. FECA Reimbursement to the | | | | | | |
| Department of Labor | | 19,706 | | 23,697 | | 43,403 |
| F. Custodial Liabilities | | 106 | | 0 | | 106 |
| G. Employer Contribution and | | | | | | |
| Payroll Taxes Payable | | 9,858 | | 0 | | 9,858 |
| H. Other Liabilities | | 0 | | 0 | | 0 |
| I. Total Intragovernmental Other | | | | | | |
| Liabilities | \$ | 29,670 | \$ | 23,697 | \$ | 53,367 |

(Amounts in thousands)

2. Nonfederal

| | | | | | | |
|---------------------------------------|----|---------|----|--------|----|---------|
| A. Accrued Funded Payroll and | | | | | | |
| Benefits | \$ | 154,263 | \$ | 0 | \$ | 154,263 |
| B. Advances from Others | | 88,192 | | 0 | | 88,192 |
| C. Deferred Credits | | 0 | | 0 | | 0 |
| D. Deposit Funds and Suspense | | | | | | |
| Accounts | | 0 | | 0 | | 0 |
| E. Temporary Early Retirement | | | | | | |
| Authority | | 0 | | 0 | | 0 |
| F. Nonenvironmental Disposal | | | | | | |
| Liabilities | | | | | | |
| (1) Military Equipment | | | | | | |
| (Nonnuclear) | | 0 | | 0 | | 0 |
| (2) Excess/Obsolete Structures | | 0 | | 0 | | 0 |
| (3) Conventional Munitions | | | | | | |
| Disposal | | 0 | | 0 | | 0 |
| G. Accrued Unfunded Annual Leave | | 0 | | 0 | | 0 |
| H. Capital Lease Liability | | 0 | | 0 | | 0 |
| I. Contract Holdbacks | | 440 | | 0 | | 440 |
| J. Employer Contribution and | | | | | | |
| Payroll Taxes Payable | | 0 | | 0 | | 0 |
| K. Contingent Liabilities | | 0 | | 17,380 | | 17,380 |
| L. Other Liabilities | | 53,332 | | 0 | | 53,332 |
| M. Total Nonfederal Other Liabilities | \$ | 296,227 | \$ | 17,380 | \$ | 313,607 |

3. Total Other Liabilities

| | | | | | |
|----|---------|----|--------|----|---------|
| \$ | 325,897 | \$ | 41,077 | \$ | 366,974 |
|----|---------|----|--------|----|---------|

| As of September 30 | 2013 | | |
|--------------------|-------------------|----------------------|-------|
| | Current Liability | Noncurrent Liability | Total |

(Amounts in thousands)

1. Intragovernmental

| | | | | | | |
|---|----|--------|----|--------|----|--------|
| A. Advances from Others | \$ | 0 | \$ | 0 | \$ | 0 |
| B. Deposit Funds and Suspense Account Liabilities | | 0 | | 0 | | 0 |
| C. Disbursing Officer Cash | | 0 | | 0 | | 0 |
| D. Judgment Fund Liabilities | | 0 | | 0 | | 0 |
| E. FECA Reimbursement to the Department of Labor | | 20,367 | | 24,284 | | 44,651 |
| F. Custodial Liabilities | | 79 | | 0 | | 79 |
| G. Employer Contribution and Payroll Taxes Payable | | 8,353 | | 0 | | 8,353 |
| H. Other Liabilities | | 0 | | 0 | | 0 |
| I. Total Intragovernmental Other Liabilities | \$ | 28,799 | \$ | 24,284 | \$ | 53,083 |

(Amounts in thousands)

2. Nonfederal

| | | | | | | |
|---|----|---------|----|--------|----|---------|
| A. Accrued Funded Payroll and Benefits | \$ | 129,665 | \$ | 0 | \$ | 129,665 |
| B. Advances from Others | | 64,588 | | 0 | | 64,588 |
| C. Deferred Credits | | 0 | | 0 | | 0 |
| D. Deposit Funds and Suspense Accounts | | 0 | | 0 | | 0 |
| E. Temporary Early Retirement Authority | | 0 | | 0 | | 0 |
| F. Nonenvironmental Disposal Liabilities | | | | | | |
| (1) Military Equipment (Nonnuclear) | | 0 | | 0 | | 0 |
| (2) Excess/Obsolete Structures | | 0 | | 0 | | 0 |
| (3) Conventional Munitions Disposal | | 0 | | 0 | | 0 |
| G. Accrued Unfunded Annual Leave | | 0 | | 0 | | 0 |
| H. Capital Lease Liability | | 0 | | 0 | | 0 |
| I. Contract Holdbacks | | 407 | | 0 | | 407 |
| J. Employer Contribution and Payroll Taxes Payable | | 0 | | 0 | | 0 |
| K. Contingent Liabilities | | 0 | | 24,558 | | 24,558 |
| L. Other Liabilities | | 48,752 | | 0 | | 48,752 |
| M. Total Nonfederal Other Liabilities | \$ | 243,412 | \$ | 24,558 | \$ | 267,970 |

| | | | | | | |
|-----------------------------------|-----------|----------------|-----------|---------------|-----------|----------------|
| 3. Total Other Liabilities | \$ | 272,211 | \$ | 48,842 | \$ | 321,053 |
|-----------------------------------|-----------|----------------|-----------|---------------|-----------|----------------|

The \$53.3 million balance in the Nonfederal Other Liabilities – Other Liabilities primarily consist of accrued liabilities established in the Consolidated Sustainment Activity Group (CSAG) Supply as an offset to the asset established when foreign governments provide funds to buy their respective share of inventory that is owned and managed by the Air Force under a Cooperative Logistics Supply Support Agreement (CLSSA).

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where AFWCF is acting on behalf of another Federal entity.

Contingent liabilities include \$17.4 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. It is DoD policy that these rights should not be misconstrued as rights of ownership. The AFWCF is under no obligation to pay contractors for amounts greater than the amounts of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the AFWCF has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

Capital Lease Liability

The AFWCF has no capital lease liability.

Note 16. Commitments and Contingencies

The AFWCF is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The AFWCF's Office of the General Counsel considers the possibility of the AFWCF sustaining any losses on these legal actions to be remote.

The AFWCF is a party to numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently, AFWCF has limited automated system processes by which it captures or assesses these potential liabilities; therefore, the amounts reported may not fairly present the Department's contingent liabilities. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further information.

Note 17. Military Retirement and Other Federal Employment Benefits

As of September 30

2014

Liabilities

(Less: Assets Available to Pay
Benefits)

Unfunded Liabilities

(Amounts in thousands)

1. Pension and Health Benefits

| | | | | | | |
|---|----|---|----|---|----|---|
| A. Military Retirement Pensions | \$ | 0 | \$ | 0 | \$ | 0 |
| B. Military Pre Medicare-Eligible Retiree Health Benefits | | 0 | | 0 | | 0 |
| C. Military Medicare-Eligible Retiree Health Benefits | | 0 | | 0 | | 0 |
| D. Total Pension and Health Benefits | \$ | 0 | \$ | 0 | \$ | 0 |

2. Other Benefits

| | | | | | | |
|--|----|---------|----|---|----|---------|
| A. FECA | \$ | 217,403 | \$ | 0 | \$ | 217,403 |
| B. Voluntary Separation Incentive Programs | | 0 | | 0 | | 0 |
| C. DoD Education Benefits Fund | | 0 | | 0 | | 0 |
| D. Other | | 0 | | 0 | | 0 |
| E. Total Other Benefits | \$ | 217,403 | \$ | 0 | \$ | 217,403 |

3. Total Military Retirement and Other Federal Employment Benefits:

| | | | | | |
|----|---------|----|---|----|---------|
| \$ | 217,403 | \$ | 0 | \$ | 217,403 |
|----|---------|----|---|----|---------|

Federal Employees Compensation Act (FECA)

The AFWCF actuarial liability for workers' compensation benefits is developed by the Department of Labor and is updated at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's (OMB's) economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2014
3.455% in Year 1
3.455% in Year 2
and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2014 were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

| CBY | COLA | CPIM |
|----------------|-------|-------|
| 2014 | N/A | N/A |
| 2015 | 1.73% | 2.93% |
| 2016 | 2.17% | 3.76% |
| 2017 | 2.13% | 3.86% |
| 2018 | 2.23% | 3.90% |
| 2019+ | 2.30% | 3.90% |
| and thereafter | | |

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2014 to the average pattern observed during the most current three charge back years, and (4) a comparison of the estimated liability per case in the 2014 projection to the average pattern for the projections of the most recent three years.

| As of September 30 | 2013 | | |
|--|-------------------|--|----------------------|
| | Liabilities | (Less: Assets Available to Pay Benefits) | Unfunded Liabilities |
| (Amounts in thousands)(Amounts in thousands) | | | |
| 1. Pension and Health Benefits | | | |
| A. Military Retirement Pensions | \$ 0 | \$ 0 | \$ 0 |
| B. Military Pre Medicare-Eligible Retiree Health Benefits | 0 | 0 | 0 |
| C. Military Medicare-Eligible Retiree Health Benefits | 0 | 0 | 0 |
| D. Total Pension and Health Benefits | \$ 0 | \$ 0 | \$ 0 |
| 2. Other Benefits | | | |
| A. FECA | \$ 220,332 | \$ 0 | \$ 220,332 |
| B. Voluntary Separation Incentive Programs | 0 | 0 | 0 |
| C. DoD Education Benefits Fund | 0 | 0 | 0 |
| D. Other | 0 | 0 | 0 |
| E. Total Other Benefits | \$ 220,332 | \$ 0 | \$ 220,332 |
| 3. Total Military Retirement and Other Federal Employment Benefits: | \$ 220,332 | \$ 0 | \$ 220,332 |

| | |
|-----------------|---|
| Note 18. | General Disclosures Related to the Statement of Net Cost |
|-----------------|---|

| Intragovernmental Costs and Exchange Revenue | | |
|--|------|------|
| As of September 30 | 2014 | 2013 |

(Amounts in thousands)

Military Retirement Benefits

1. Gross Cost

A. Intragovernmental Cost

\$

0

\$

0

B. Nonfederal Cost

0

0

C. Total Cost

\$

0

\$

0

2. Earned Revenue

A. Intragovernmental Revenue

\$

0

\$

0

B. Nonfederal Revenue

0

0

C. Total Revenue

\$

0

\$

0

3. Losses/(Gains) from Actuarial Assumption

Changes for Military Retirement Benefits

\$

0

\$

0

Total Net Cost

\$

0

\$

0

Civil Works

1. Gross Cost

A. Intragovernmental Cost

\$

0

\$

0

B. Nonfederal Cost

0

0

C. Total Cost

\$

0

\$

0

2. Earned Revenue

A. Intragovernmental Revenue

\$

0

\$

0

B. Nonfederal Revenue

0

0

C. Total Revenue

\$

0

\$

0

3. Losses/(Gains) from Actuarial Assumption

Changes for Military Retirement Benefits

\$

0

\$

0

Total Net Cost

\$

0

\$

0

Military Personnel

1. Gross Cost

A. Intragovernmental Cost

\$

0

\$

0

B. Nonfederal Cost

0

0

C. Total Cost

\$

0

\$

0

2. Earned Revenue

A. Intragovernmental Revenue

\$

0

\$

0

B. Nonfederal Revenue

0

0

C. Total Revenue

\$

0

\$

0

3. Losses/(Gains) from Actuarial Assumption

Changes for Military Retirement Benefits

\$

0

\$

0

Total Net Cost

\$

0

\$

0

Operations, Readiness & Support

| | | | |
|--|----|--------------|----------------|
| 1. Gross Cost | | | |
| A. Intragovernmental Cost | \$ | 1,666,162 | \$ 1,437,966 |
| B. Nonfederal Cost | | 9,454,227 | 9,581,339 |
| C. Total Cost | \$ | 11,120,389 | \$ 11,019,305 |
| 2. Earned Revenue | | | |
| A. Intragovernmental Revenue | \$ | (9,822,689) | \$ (9,313,554) |
| B. Nonfederal Revenue | | (379,894) | (293,662) |
| C. Total Revenue | \$ | (10,202,583) | \$ (9,607,216) |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | \$ | 0 | \$ 0 |
| Total Net Cost | \$ | 917,806 | \$ 1,412,089 |

Procurement

| | | | |
|--|----|---|------|
| 1. Gross Cost | | | |
| A. Intragovernmental Cost | \$ | 0 | \$ 0 |
| B. Nonfederal Cost | | 0 | 0 |
| C. Total Cost | \$ | 0 | \$ 0 |
| 2. Earned Revenue | | | |
| A. Intragovernmental Revenue | \$ | 0 | \$ 0 |
| B. Nonfederal Revenue | | 0 | 0 |
| C. Total Revenue | \$ | 0 | \$ 0 |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | \$ | 0 | \$ 0 |
| Total Net Cost | \$ | 0 | \$ 0 |

Research, Development, Test & Evaluation

| | | | |
|--|----|---|------|
| 1. Gross Cost | | | |
| A. Intragovernmental Cost | \$ | 0 | \$ 0 |
| B. Nonfederal Cost | | 0 | 0 |
| C. Total Cost | \$ | 0 | \$ 0 |
| 2. Earned Revenue | | | |
| A. Intragovernmental Revenue | \$ | 0 | \$ 0 |
| B. Nonfederal Revenue | | 0 | 0 |
| C. Total Revenue | \$ | 0 | \$ 0 |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | \$ | 0 | \$ 0 |
| Total Net Cost | \$ | 0 | \$ 0 |

Family Housing & Military Construction

| | | |
|--|-------------|-------------|
| 1. Gross Cost | | |
| A. Intragovernmental Cost | \$ 0 | \$ 0 |
| B. Nonfederal Cost | 0 | 0 |
| C. Total Cost | <u>\$ 0</u> | <u>\$ 0</u> |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | \$ 0 | \$ 0 |
| B. Nonfederal Revenue | 0 | 0 |
| C. Total Revenue | <u>\$ 0</u> | <u>\$ 0</u> |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | \$ 0 | \$ 0 |
| Total Net Cost | <u>\$ 0</u> | <u>\$ 0</u> |

Consolidated

| | | |
|--|------------------------|-----------------------|
| 1. Gross Cost | | |
| A. Intragovernmental Cost | \$ 1,666,162 | \$ 1,437,966 |
| B. Nonfederal Cost | 9,454,227 | 9,581,339 |
| C. Total Cost | <u>\$ 11,120,389</u> | <u>\$ 11,019,305</u> |
| 2. Earned Revenue | | |
| A. Intragovernmental Revenue | \$ (9,822,689) | \$ (9,313,554) |
| B. Nonfederal Revenue | (379,894) | (293,662) |
| C. Total Revenue | <u>\$ (10,202,583)</u> | <u>\$ (9,607,216)</u> |
| 3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits | \$ 0 | \$ 0 |
| 4. Costs Not Assigned to Programs | \$ 0 | \$ 0 |
| 5. (Less: Earned Revenues) Not Attributed to Programs | \$ 0 | \$ 0 |
| Total Net Cost | <u>\$ 917,806</u> | <u>\$ 1,412,089</u> |

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government.

Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The AFWCF's systems do not track intragovernmental transactions by customer at the transaction level. Buyer-side expenses are adjusted to agree with internal seller-side revenues. Expenses are generally adjusted by reclassifying amounts between federal and nonfederal expenses. Intradepartment revenues and expenses are then eliminated.

The AFWCF records transactions on an accrual basis. The AFWCF may not have all the actual costs and revenues input into the system in time for reporting. Accrual estimates based upon budget information and historical data are made as required by generally accepted accounting principles. These estimates reverse as actual costs or revenues are recorded.

| | |
|-----------------|--|
| Note 19. | Disclosures Related to the Statement of Changes in Net Position |
|-----------------|--|

The \$292.2 million in Other Financing Sources, Other consists primarily of other gains and losses due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Appropriations Received on the Statement of Changes in Net Position (SCNP) does not agree with Appropriations on the Statement of Budgetary Resources (SBR). The \$61.7 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 20, Disclosures Related to the Statement of Budgetary Resources for further information.

| | |
|-----------------|--|
| Note 20. | Disclosures Related to the Statement of Budgetary Resources |
|-----------------|--|

| As of September 30 | 2014 | 2013 |
|--|--------------|--------------|
| (Amounts in thousands) | | |
| 1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period | \$ 5,815,315 | \$ 5,635,924 |
| 2. Available Borrowing and Contract Authority at the End of the Period | 0 | 0 |

The AFWCF reported reimbursable obligations of \$13.0 billion in category B.

The SBR includes intraentity transactions because the statements are presented as combined.

The Appropriations on the Statement of Budgetary Resources (SBR) does not agree with Appropriations Received on the Statement of Changes in Net Position (SCNP). The \$61.7 million difference is due to additional resources that were transferred from the Defense Working Capital Fund are included in the Appropriation line item on the Statement of Budgetary Resources. Refer to Note 19, Disclosures Related to the Statement of Changes in Net Position for additional details.

| | |
|-----------------|---|
| Note 21. | Reconciliation of Net Cost of Operations to Budget |
|-----------------|---|

As of September 30

2014

2013

(Amounts in thousands)

Resources Used to Finance Activities:

Budgetary Resources Obligated:

| | | | | |
|--|----|--------------|----|--------------|
| 1. Obligations incurred | \$ | 12,986,027 | \$ | 10,421,174 |
| 2. Less: Spending authority from offsetting collections and recoveries (-) | | (14,243,363) | | (10,825,546) |
| 3. Obligations net of offsetting collections and recoveries | \$ | (1,257,336) | \$ | (404,372) |
| 4. Less: Offsetting receipts (-) | | 0 | | 0 |
| 5. Net obligations | \$ | (1,257,336) | \$ | (404,372) |
| Other Resources: | | | | |
| 6. Donations and forfeitures of property | | 0 | | 0 |
| 7. Transfers in/out without reimbursement (+/-) | | 22,318 | | (10,337) |
| 8. Imputed financing from costs absorbed by others | | 170,169 | | 165,476 |
| 9. Other (+/-) | | 292,167 | | 145,282 |
| 10. Net other resources used to finance activities | \$ | 484,654 | \$ | 300,421 |
| 11. Total resources used to finance activities | \$ | (772,682) | \$ | (103,951) |

Resources Used to Finance Items not Part of the Net Cost of Operations:

| | | | | |
|--|----|-------------|----|-------------|
| 12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided: | | | | |
| 12a. Undelivered Orders (-) | \$ | (179,391) | \$ | 580,156 |
| 12b. Unfilled Customer Orders | | 855,523 | | 106,229 |
| 13. Resources that fund expenses recognized in prior Periods (-) | | (4,177) | | (3,498) |
| 14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations | | 0 | | 0 |
| 15. Resources that finance the acquisition of assets (-) | | (4,847,307) | | (4,956,399) |
| 16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations: | | | | |
| 16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-) | | 0 | | 0 |
| 16b. Other (+/-) | | (314,485) | | (134,945) |
| 17. Total resources used to finance items not part of the Net Cost of Operations | \$ | (4,489,837) | \$ | (4,408,457) |
| 18. Total resources used to finance the Net Cost of Operations | \$ | (5,262,519) | \$ | (4,512,408) |

| As of September 30 | 2014 | 2013 |
|--------------------|------|------|
|--------------------|------|------|

(Amounts in thousands)

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Period:

| | | | | |
|--|----|--------|----|-------|
| 19. Increase in annual leave liability | \$ | 0 | \$ | 0 |
| 20. Increase in environmental and disposal liability | | 0 | | 0 |
| 21. Upward/Downward reestimates of credit subsidy expense (+/-) | | 0 | | 0 |
| 22. Increase in exchange revenue receivable from the public (-) | | (240) | | 3,185 |
| 23. Other (+/-) | | 0 | | 2,814 |
| 24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods | \$ | (240) | \$ | 5,999 |

Components not Requiring or Generating Resources:

| | | | | |
|--|----|-------------|----|-------------|
| 25. Depreciation and amortization | \$ | 169,767 | \$ | 180,051 |
| 26. Revaluation of assets or liabilities (+/-) | | 2,142,626 | | 1,740,478 |
| 27. Other (+/-) | | | | |
| 27a. Trust Fund Exchange Revenue | | 0 | | 0 |
| 27b. Cost of Goods Sold | | 8,461,606 | | 8,257,100 |
| 27c. Operating Material and Supplies Used | | 0 | | 1,676 |
| 27d. Other | | (4,593,435) | | (4,260,807) |
| 28. Total Components of Net Cost of Operations that will not Require or Generate Resources | \$ | 6,180,564 | \$ | 5,918,498 |

29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period

30. Net Cost of Operations

Due to the AFWCF's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. The difference between budgetary and proprietary data is a previously identified deficiency.

An \$11.8 million adjustment was made to the Resources That Finance the Acquisition of Assets in order to align the note schedule with the amount reported on the Statement of Net Cost.

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to intraagency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Resources Used to Finance Activities, Other, and Resources Used to Finance Items not Part of the Net Cost of Operations, Other, is comprised of other gains and losses totaling \$318.5 million due to the reclassification of intragovernmental transfers in or out without reimbursement for which Air Force could not determine the trading partners.

Components not Requiring or Generating Resources, Other, is comprised of \$4.4 billion for Consolidated Sustainment Activity Group - Maintenance Division work-in-process offsets.

| | |
|-----------------|--|
| Note 22. | Disclosures Related to Incidental Custodial Collections |
|-----------------|--|

The AFWCF collected \$24.3 thousand of incidental custodial revenues generated primarily from nonentity interest, penalties and administrative fees collected for out-of-service debts. These funds are not available for use by AFWCF. At the end of each fiscal year, the accounts are closed and the balances relinquished to the U.S. Treasury.

| | |
|-----------------|---|
| Note 23. | Funds from Dedicated Collections |
|-----------------|---|

AFWCF has no Funds from Dedicated Collections.

| | |
|-----------------|-----------------------------|
| Note 24. | Fiduciary Activities |
|-----------------|-----------------------------|

AFWCF has no Fiduciary Activities.

| | |
|-----------------|--------------------------|
| Note 25. | Other Disclosures |
|-----------------|--------------------------|

AFWCF has no Fiduciary Activities.

| | |
|-----------------|---------------------|
| Note 26. | Restatements |
|-----------------|---------------------|

AFWCF has no Restatements.

Working Capital Fund

Fiscal Year 2014

Required Supplementary Information

Department of Defense
Air Force Working Capital Fund
STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES
For the periods ended September 30, 2014 and 2013
(\$ in Thousands)

| | <u>Operations, Readiness & Support</u> | <u>2014 Combined</u> | <u>2013 Combined</u> |
|--|--|----------------------|----------------------|
| Budgetary Resources: | | | |
| Unobligated balance brought for, October 1 | 545,223 | 545,223 | 106,559 |
| Unobligated balance brought forward, October 1, as adjusted | 545,223 | 545,223 | 106,559 |
| Recoveries of prior year unpaid obligations | 22,741 | 22,741 | 13,581 |
| Other changes in unobligated balance (+ or -) | (151,077) | (151,077) | 95,124 |
| Unobligated balance from prior year budget authority, net | 416,887 | 416,887 | 215,264 |
| Appropriations (discretionary and mandatory) | 61,731 | 61,731 | 45,452 |
| Contract Authority (discretionary and mandatory) | 8,812,597 | 8,812,597 | 6,478,609 |
| Spending Authority from offsetting collections (discretionary and mandatory) | 4,688,169 | 4,688,169 | 4,842,419 |
| Total Budgetary Resources | <u>\$ 13,979,384</u> | <u>13,979,384</u> | <u>10,966,396</u> |
| Status of Budgetary Resources: | | | |
| Obligations Incurred | 12,986,028 | 12,986,028 | 10,421,174 |
| Unobligated balance, end of year, Apportioned | 993,356 | 993,356 | 545,223 |
| Total unobligated balance, end of year | <u>993,356</u> | <u>993,356</u> | <u>545,223</u> |
| Total Budgetary Resources | <u>\$ 13,979,384</u> | <u>13,979,384</u> | <u>10,966,397</u> |
| Change in Obligated Balance: | | | |
| Unpaid obligations: | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 6,512,462 | 6,512,462 | 7,060,232 |
| Obligations incurred | 12,986,028 | 12,986,028 | 10,421,174 |
| Outlays (gross) (-) | (12,870,730) | (12,870,730) | (10,955,364) |
| Recoveries of prior year unpaid obligations (-) | (22,741) | (22,741) | (13,581) |
| Unpaid obligations, end of year | <u>\$ 6,605,018</u> | <u>6,605,018</u> | <u>6,512,462</u> |
| Uncollected Payments: | | | |
| Uncollected pymts, Fed sources, brought forward, Oct. 1 (-) | (2,950,401) | (2,950,401) | (3,113,433) |
| Change in uncollected pymts, Fed sources (+ or -) | (1,198,293) | (1,198,293) | 163,031 |
| Uncollected pymts, Fed sources, end of year (-) | <u>(4,148,694)</u> | <u>(4,148,694)</u> | <u>(2,950,401)</u> |
| Obligated balance, start of year (+ or -) | 3,562,061 | 3,562,061 | 3,946,799 |
| 3200 Obligated balance, end of year (+ or -) | <u>\$ 2,456,324</u> | <u>2,456,324</u> | <u>3,562,061</u> |
| Budget Authority and Outlays, Net: | | | |
| Budget authority, gross (discretionary and mandatory) | 13,562,497 | 13,562,497 | 10,751,132 |
| Actual offsetting collections (discretionary and mandatory) (-) | (13,022,329) | (13,022,329) | (10,974,997) |
| Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -) | (1,198,293) | (1,198,293) | 163,031 |
| Budget Authority, net (discretionary and mandatory) | <u>\$ (658,125)</u> | <u>(658,125)</u> | <u>(60,834)</u> |
| Outlays, gross (discretionary and mandatory) | 12,870,730 | 12,870,730 | 10,955,364 |
| Actual offsetting collections (discretionary and mandatory) (-) | (13,022,329) | (13,022,329) | (10,974,997) |
| Outlays, net (discretionary and mandatory) | (151,599) | (151,599) | (19,633) |
| Agency Outlays, net (discretionary and mandatory) | <u>\$ (151,599)</u> | <u>(151,599)</u> | <u>(19,633)</u> |

Working Capital Fund

Fiscal Year 2014

Audit Opinion



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 7, 2014

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Air Force Working Capital Fund
FY 2014 and FY 2013 Basic Financial Statements
(Report No. DODIG-2015-024)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990, as amended," requires the DoD Inspector General to audit the accompanying the Air Force Working Capital Fund consolidated balance sheet as of September 30, 2014 and 2013, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of Air Force management. Management is responsible for (1) preparing financial statements that conform with generally accepted accounting principles in the United States (U.S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the Air Force's financial management systems fully comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin No. 14-02, "Audit Requirements for Federal Financial Statements," October 21, 2013. However, based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. Air Force management asserted to us that Air Force Working Capital Fund FY 2014 and FY 2013 Basic Financial Statements would not substantially conform to U.S. GAAP and that Air Force financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2014. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin 14-02 to determine whether material amounts on the basic financial statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Air Force Working Capital Fund FY 2014 and FY 2013 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Emphasis of Matter

As discussed in Note 1 and 10 to the basic financial statements, the Air Force has elected to change its capitalization thresholds for General Property, Plant, and Equipment in FY 2014. We did not modify our opinion with respect to this matter.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. Air Force management presented the Management's Discussion and Analysis and Required Supplementary Information for additional analysis as part of the annual financial statements; these elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," September 18, 2014, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of the Department of Defense Audited Financial Statements."

Report on Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic financial statements, and compliance with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether the Air Force complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. Providing an opinion on compliance with certain provisions of laws and regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Office of the Assistant Secretary of the Air Force (Financial Management and Comptroller). Air Force officials stated they are working to resolve the problems this report outlines.

This report will be made publicly available pursuant to section 8M, paragraph (b)(1)(A) of the Inspector General Act of 1978, as amended. However, this report is intended solely for the information and use of Congress; the OMB; the U.S. Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD; the Assistant Secretary of the Air Force (Financial Management and Comptroller); and the DoD Office of Inspector General. It is not intended to be used and should not be used by anyone else.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 or (DSN) 329-5945.



Lorin T. Venable, CPA

Assistant Inspector General

Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the Air Force's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances for the purposes of expressing our opinion on the basic financial statements, but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that Air Force personnel accumulated, recorded, and reported accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting, and we do not do so. However, the following material weaknesses and significant deficiencies exist that could adversely affect the Air Force's financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Air Force's financial statements will not be prevented, or detected and corrected on a timely basis. The following material weaknesses continue to exist.

Financial Management Systems. Statement of Federal Financial Accounting Concepts No. 1, "Objectives of Federal Financial Reporting," requires that financial management system controls be adequate to ensure transactions are executed in accordance with budgetary and financial laws and other requirements, are consistent with the purpose authorized, and are recorded in accordance with Federal accounting standards. This statement also requires that financial management system controls ensure proper

safeguards for assets to deter fraud, waste, and abuse and provide adequate support for performance measurement information. The Assistant Secretary of the Air Force (Financial Management and Comptroller) acknowledged that many Air Force financial management systems did not substantially comply with Federal financial management system requirements. The design of the Air Force financial management and feeder systems did not allow it to collect and record financial information based on a full-accrual accounting basis. Until these systems are able to collect and report financial information in compliance with U.S. GAAP, the Air Force proprietary financial reporting will be largely based on budgetary transactions and nonfinancial feeder systems.

Inventory. The Air Force supply management systems did not provide sufficient audit trails to confirm and value the in-transit inventory included as part of inventory held for sale on the Consolidated Balance Sheet.

Operating Materials and Supplies. The Air Force is required by Statement of Federal Financial Accounting Standards No. 3, "Accounting for Inventory and Related Property," to record an expense at the time a user consumes Operating Materials and Supplies. The Air Force did not record cost of goods sold and work-in-process in accordance with this statement. Additionally, uncertainties existed regarding the existence and completeness of the quantities used to derive the balances reported in the financial statements for Operating Materials and Supplies inventory.

General Property, Plant, and Equipment. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," requires the Air Force to record General Property, Plant, and Equipment using acquisition cost, capitalized improvement costs, and depreciation expense. However, the Air Force could not verify General Property, Plant, and Equipment values in accordance with this statement. In addition, the General Property, Plant, and Equipment line item on the Balance Sheet did not include all Government-furnished equipment, with values exceeding the capitalization threshold, in the possession of contractors.

Subsidiary Ledgers and Special Journals. Air Force Working Capital Fund resource managers did not always maintain adequate documentation or use transaction subsidiary ledgers and special journals to support recorded trial balance accounts. Air Force and Defense Finance and Accounting Service personnel did not perform reconciliations and system validations to verify the accuracy of accounts receivable from Foreign Military Sales, progress payments to contractors, and accounts payable from the Consolidated Sustainment Activity Group Supply Division.

Intragovernmental Eliminations. The Air Force could not accurately identify all intragovernmental transactions by customer. Seller entities within DoD provided summary balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the Air Force adjusted its buyer-side records to recognize unrecorded costs and accounts payable.

Accounting Entries. The Air Force acknowledged that it continued to make material adjustments for financial reporting that were not supported by detailed transactions because of its inability to properly identify intragovernmental trading partner transactions and the deficiencies described above.

Material Weakness Identified during FY 2014

During FY 2014 Air Force management identified the following material weakness.

Spending Authority From Offsetting Collections Earned and Collected. The Air Force did not always reconcile Spending Authority, Earned and Collected as reported on the Statement of Budgetary Resources with transactional details.

Previously Identified Significant Deficiencies

Management acknowledged that previously identified significant deficiencies continue to exist. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. The following significant deficiency continues to exist.

- **Accounts Receivable.** The Air Force did not have assurance on the Accounts Receivable financial statement line item due to reportable conditions in the areas of intra-governmental trading partner eliminations, foreign military sales, undistributed collections, supporting documentation, and completeness of the Tri-Annual Review.

- **Accounts Payable.** The Air Force did not have assurance on the Accounts Payable financial statement line item because there were reportable conditions in the areas of intra-governmental trading partner eliminations, accruals, supporting documentation, and the completeness of the Tri-Annual Review. These deficiencies result in an inability to properly reconcile and support the validity of Accounts Payable.

These financial management control deficiencies may cause inaccurate management information. As a result, Air Force management decisions based in whole or in part on this information may be adversely affected. Financial information reported by the Air Force may also contain misstatements resulting from these deficiencies. Internal control work we conducted as part of our prior audits would not necessarily disclose all material weaknesses and significant deficiencies. The Air Force reported the above material weaknesses in its FMFIA report, except for Operating Materials and Supplies, General Property, Plant, and Equipment; Subsidiary Ledgers and Special Journals; Intergovernmental Eliminations; and Other Accounting Entries.

Report on Compliance With Applicable Provisions of Law, Regulations, Contracts, and Grant Agreements

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether the Air Force complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the Air Force and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the Air Force or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As required by 31 U.S.C. § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act, the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken. During FY 2014, the Air Force reported no Antideficiency Act violations.

Compliance With FFMIA Requirements

FFMIA requires the Air Force to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. The Air Force is committed to achieving and sustaining audit readiness. Air Force Working Capital Funds are not subject to the examination of the Schedule of Budgetary Activity deadline. The Air Force Working Capital Fund should continue to work towards asserting full financial statement audit readiness by the Department-wide FY 2017 deadline.

For FY 2014, the Air Force did not substantially comply with FFMIA. The Air Force acknowledged to us that Air Force Working Capital Fund financial management and feeder systems could not provide adequate evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continue. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2014. Therefore, based on the representation of the Air Force, we did not substantiate whether the Air Force complied with FFMIA and OMB implementation guidance.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.



For more information or to contact us:

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